

VORNADO REALTY TRUST  
Form 10-Q  
November 01, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark one)

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

For the quarterly period **September 30, 2012**  
ended:

**Or**

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

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

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

**VORNADO REALTY TRUST**

(Exact name of registrant as specified in its charter)

**Maryland**

**22-1657560**

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

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

**10019**  
(Zip Code)

**(212) 894-7000**

(Registrant's telephone number, including area code)

**N/A**

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

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

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

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

Large Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

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

As of September 30, 2012, 186,143,105 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>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
|--|-------------------------------|------------------------------|
| <b>ASSETS</b>  |                               |                              |
| Real estate, at cost:  |                               |                              |
| Land   | \$ 4,143,581                  | \$ 4,416,613                 |
| Buildings and improvements   | 11,851,152                    | 12,041,054                   |
| Development costs and construction in progress   | 865,953                       | 119,540                      |
| Leasehold improvements and equipment   | 128,168                       | 126,712                      |
| Total  | 16,988,854                    | 16,703,919                   |
| Less accumulated depreciation and amortization   | (3,034,815)                   | (2,901,203)                  |
| Real estate, net   | 13,954,039                    | 13,802,716                   |
| Cash and cash equivalents  | 465,884                       | 606,553                      |
| Restricted cash  | 391,794                       | 98,068                       |
| Marketable securities  | 485,001                       | 741,321                      |
| Accounts receivable, net of allowance for doubtful accounts of \$38,351 and \$43,241             | 181,242                       | 171,798                      |
| Investments in partially owned entities  | 1,319,710                     | 1,233,650                    |
| Investment in Toys "R" Us  | 549,421                       | 506,809                      |
| Real Estate Fund investments   | 482,442                       | 346,650                      |
| Mezzanine loans receivable   | 131,585                       | 133,948                      |
| Receivable arising from the straight-lining of rents, net of allowance of \$4,448 and \$3,290    | 755,866                       | 701,827                      |
| Deferred leasing and financing costs, net of accumulated amortization of \$220,846 and \$237,766 | 389,155                       | 364,855                      |
| Identified intangible assets, net of accumulated amortization of \$362,516 and \$347,039         | 252,683                       | 295,432                      |
| Assets related to discontinued operations  | 537,938                       | 1,049,153                    |
| Due from officers  | -                             | 13,127                       |
| Other assets   | 501,056                       | 380,580                      |
|  | <b>\$ 20,397,816</b>          | <b>\$ 20,446,487</b>         |
| <b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>                               |                               |                              |
| Notes and mortgages payable  | \$ 7,852,657                  | \$ 8,065,576                 |
| Senior unsecured notes   | 1,357,921                     | 1,357,661                    |
| Revolving credit facility debt   | 600,000                       | 138,000                      |
| Exchangeable senior debentures   | -                             | 497,898                      |
| Convertible senior debentures  | -                             | 10,168                       |
| Accounts payable and accrued expenses  | 442,644                       | 423,512                      |
| Deferred revenue   | 465,929                       | 511,959                      |
| Deferred compensation plan   | 103,003                       | 95,457                       |

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|   |               |               |
|---|---------------|---------------|
| Deferred tax liabilities  | 15,432        | 13,315        |
| Liabilities related to discontinued operations  | 478,980       | 518,319       |
| Other liabilities   | 396,897       | 145,498       |
| Total liabilities   | 11,713,463    | 11,777,363    |
| Commitments and contingencies   |               |               |
| Redeemable noncontrolling interests:  |               |               |
| Class A units - 11,714,978 and 12,160,771 units outstanding   | 949,499       | 934,677       |
| Series D cumulative redeemable preferred units - 1,800,001 and 9,000,001 units outstanding  | 46,000        | 226,000       |
| Total redeemable noncontrolling interests   | 995,499       | 1,160,677     |
| Vornado shareholders' equity:   |               |               |
| Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 51,184,609 and 42,186,709 shares   | 1,237,699     | 1,021,660     |
| Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 186,143,105 and 185,080,020 shares | 7,415         | 7,373         |
| Additional capital  | 7,136,090     | 7,127,258     |
| Earnings less than distributions  | (1,319,118)   | (1,401,704)   |
| Accumulated other comprehensive (loss) income   | (160,107)     | 73,729        |
| Total Vornado shareholders' equity  | 6,901,979     | 6,828,316     |
| Noncontrolling interests in consolidated subsidiaries   | 786,875       | 680,131       |
| Total equity  | 7,688,854     | 7,508,447     |
|   | \$ 20,397,816 | \$ 20,446,487 |

See notes to consolidated financial statements (unaudited).

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

|   | <b>For the Three</b>              |             | <b>For the Nine</b>               |              |
|---|-----------------------------------|-------------|-----------------------------------|--------------|
|   | <b>Months Ended September 30,</b> |             | <b>Months Ended September 30,</b> |              |
| (Amounts in thousands, except per share amounts)  | <b>2012</b>                       | <b>2011</b> | <b>2012</b>                       | <b>2011</b>  |
| <b>REVENUES:</b>  |                                   |             |                                   |              |
| Property rentals  | \$ 518,141                        | \$ 530,192  | \$ 1,564,168                      | \$ 1,592,867 |
| Tenant expense reimbursements   | 80,497                            | 85,757      | 224,287                           | 237,945      |
| Cleveland Medical Mart development project  | 72,651                            | 35,135      | 184,014                           | 108,203      |
| Fee and other income  | 39,688                            | 36,776      | 106,018                           | 111,813      |
| Total revenues  | 710,977                           | 687,860     | 2,078,487                         | 2,050,828    |
| <b>EXPENSES:</b>  |                                   |             |                                   |              |
| Operating   | 264,487                           | 262,837     | 764,018                           | 773,331      |
| Depreciation and amortization   | 124,335                           | 126,935     | 386,974                           | 373,380      |
| General and administrative  | 48,742                            | 46,121      | 151,142                           | 154,359      |
| Cleveland Medical Mart development project  | 70,431                            | 33,419      | 177,127                           | 101,637      |
| Acquisition related costs and tenant buy-outs   | 1,070                             | 2,288       | 4,314                             | 22,455       |
| Total expenses  | 509,065                           | 471,600     | 1,483,575                         | 1,425,162    |
| Operating income  | 201,912                           | 216,260     | 594,912                           | 625,666      |
| (Loss) income applicable to Toys "R" Us   | (8,585)                           | (9,304)     | 88,696                            | 80,794       |
| Income from partially owned entities  | 21,268                            | 13,140      | 53,491                            | 55,035       |
| Income from Real Estate Fund (of which \$4,787 and \$3,675 in each three-month period, respectively, and \$25,026 and \$15,703 in each nine-month period, respectively, are attributable to noncontrolling interests) | 5,509                             | 5,353       | 37,572                            | 25,491       |
| Interest and other investment income (loss), net  | 10,523                            | (30,011)    | (22,984)                          | 95,086       |
| Interest and debt expense (including amortization of deferred financing costs of \$5,725 and \$4,670, in each three-month period, respectively, and \$17,204 and \$14,093 in each nine-month period, respectively)    | (120,770)                         | (131,998)   | (377,600)                         | (394,192)    |
| Net gain on disposition of wholly owned and partially owned assets  | -                                 | 1,298       | 4,856                             | 7,975        |
| Income before income taxes  | 109,857                           | 64,738      | 378,943                           | 495,855      |

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|  |                   |                  |                   |                   |
|--|-------------------|------------------|-------------------|-------------------|
| Income tax expense   | (3,015)           | (6,959)          | (17,319)          | (18,548)          |
| Income from continuing operations                            | 106,842           | 57,779           | 361,624           | 477,307           |
| Income from discontinued operations                          | 157,314           | 8,444            | 241,024           | 165,706           |
| Net income   | 264,156           | 66,223           | 602,648           | 643,013           |
| Less net income attributable to noncontrolling interests in: |                   |                  |                   |                   |
| Consolidated subsidiaries                                    | (6,610)           | (5,636)          | (30,928)          | (20,643)          |
| Operating Partnership, including unit distributions          | (16,240)          | (6,825)          | (40,595)          | (47,364)          |
| Net income attributable to Vornado                           | 241,306           | 53,762           | 531,125           | 575,006           |
| Preferred share dividends                                    | (20,613)          | (17,627)         | (56,187)          | (47,743)          |
| Discount on preferred unit redemptions                       | 11,700            | 5,000            | 11,700            | 5,000             |
| <b>NET INCOME attributable to common shareholders</b>        | <b>\$ 232,393</b> | <b>\$ 41,135</b> | <b>\$ 486,638</b> | <b>\$ 532,263</b> |
| <b>INCOME PER COMMON SHARE - BASIC:</b>                      |                   |                  |                   |                   |
| Income from continuing operations, net                       | \$ 0.45           | \$ 0.18          | \$ 1.40           | \$ 2.04           |
| Income from discontinued operations, net                     | 0.80              | 0.04             | 1.22              | 0.85              |
| Net income per common share                                  | \$ 1.25           | \$ 0.22          | \$ 2.62           | \$ 2.89           |
| Weighted average shares outstanding                          | 185,924           | 184,398          | 185,656           | 184,220           |
| <b>INCOME PER COMMON SHARE - DILUTED:</b>                    |                   |                  |                   |                   |
| Income from continuing operations, net                       | \$ 0.45           | \$ 0.18          | \$ 1.39           | \$ 2.02           |
| Income from discontinued operations, net                     | 0.79              | 0.04             | 1.22              | 0.84              |
| Net income per common share                                  | \$ 1.24           | \$ 0.22          | \$ 2.61           | \$ 2.86           |
| Weighted average shares outstanding                          | 186,655           | 186,065          | 186,399           | 186,039           |
| <b>DIVIDENDS PER COMMON SHARE</b>                            | <b>\$ 0.69</b>    | <b>\$ 0.69</b>   | <b>\$ 2.07</b>    | <b>\$ 2.07</b>    |

See notes to consolidated financial statements (unaudited).



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

|   | <b>For the Three</b>              |              | <b>For the Nine</b>               |             |
|---|-----------------------------------|--------------|-----------------------------------|-------------|
|   | <b>Months Ended September 30,</b> |              | <b>Months Ended September 30,</b> |             |
| (Amounts in thousands)  | <b>2012</b>                       | <b>2011</b>  | <b>2012</b>                       | <b>2011</b> |
| Net income  | \$ 264,156                        | \$ 66,223    | \$ 602,648                        | \$ 643,013  |
| Other comprehensive income (loss):  |                                   |              |                                   |             |
| Change in unrealized net gain (loss) on securities                                  |                                   |              |                                   |             |
| available-for-sale  | 18,358                            | (161,178)    | (202,167)                         | (120,334)   |
| Pro rata share of other comprehensive (loss) income of nonconsolidated subsidiaries | (12,607)                          | 112          | (38,861)                          | 26,477      |
| Change in value of interest rate swap   | (2,866)                           | (24,424)     | (8,868)                           | (42,458)    |
| Other   | (30)                              | (69)         | 343                               | (5,114)     |
| Comprehensive income (loss)   | 267,011                           | (119,336)    | 353,095                           | 501,584     |
| Less comprehensive income attributable to noncontrolling interests                  | (23,027)                          | (400)        | (55,806)                          | (59,050)    |
| Comprehensive income (loss) attributable to Vornado                                 | \$ 243,984                        | \$ (119,736) | \$ 297,289                        | \$ 442,534  |

See notes to consolidated financial statements (unaudited).

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

| (Amounts in thousands)                                | Accumulated      |            |               |          |              |                    |                     |                 |              |
|---|------------------|------------|---------------|----------|--------------|--------------------|---------------------|-----------------|--------------|
|   | Preferred Shares |            | Common Shares |          | Additional   | Earnings Less Than | Other Comprehensive | Non-controlling | Total        |
|   | Shares           | Amount     | Shares        | Amount   | Capital      | Distributions      | Income (Loss)       | Interests       | Equity       |
| <b>Balance, December 31, 2010</b>                     | 32,340           | \$ 783,088 | 183,662       | \$ 7,317 | \$ 6,932,728 | \$ (1,480,876)     | \$ 73,453           | \$ 514,695      | \$ 6,830,405 |
| Net income  | -                | -          | -             | -        | -            | 575,006            | -                   | 20,643          | 595,649      |
| Dividends on common shares                            | -                | -          | -             | -        | -            | (381,382)          | -                   | -               | (381,382)    |
| Dividends on preferred shares                         | -                | -          | -             | -        | -            | (47,905)           | -                   | -               | (47,905)     |
| Issuance of Series J preferred shares                 | 9,850            | 239,037    | -             | -        | -            | -                  | -                   | -               | 239,037      |
| Common shares issued:                                 |                  |            |               |          |              |                    |                     |                 |              |
| Upon redemption of Class A units, at redemption value | -                | -          | 435           | 17       | 38,203       | -                  | -                   | -               | 38,220       |
| Under employees' share option plan                    | -                | -          | 369           | 15       | 21,603       | (397)              | -                   | -               | 21,221       |
| Under dividend reinvestment plan                      | -                | -          | 15            | 1        | 1,329        | -                  | -                   | -               | 1,330        |
| Contributions:  |                  |            |               |          |              |                    |                     |                 |              |
| Real Estate Fund                                      | -                | -          | -             | -        | -            | -                  | -                   | 109,241         | 109,241      |
| Other   | -                | -          | -             | -        | -            | -                  | -                   | 364             | 364          |
| Distributions:  |                  |            |               |          |              |                    |                     |                 |              |
| Real Estate Fund                                      | -                | -          | -             | -        | -            | -                  | -                   | (22,713)        | (22,713)     |
| Other   | -                | -          | -             | -        | -            | -                  | -                   | (15,604)        | (15,604)     |

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|  |        |              |         |          |              |                |             |            |              |
|--|--------|--------------|---------|----------|--------------|----------------|-------------|------------|--------------|
| Conversion of Series A preferred shares to common shares                     | (3)    | (165)        | 5       | -        | 165          | -              | -           | -          | -            |
| Deferred compensation shares and options                                     | -      | -            | 10      | -        | 7,866        | -              | -           | -          | 7,866        |
| Change in unrealized net gain (loss) on securities available-for-sale        | -      | -            | -       | -        | -            | -              | (120,334)   | -          | (120,334)    |
| Pro rata share of other comprehensive income of nonconsolidated subsidiaries | -      | -            | -       | -        | -            | -              | 26,477      | -          | 26,477       |
| Change in value of interest rate swap  | -      | -            | -       | -        | -            | -              | (42,458)    | -          | (42,458)     |
| Adjustments to carry redeemable Class A units at redemption value            | -      | -            | -       | -        | 114,628      | -              | -           | -          | 114,628      |
| Redeemable noncontrolling interests' share of above adjustments              | -      | -            | -       | -        | -            | -              | 8,957       | -          | 8,957        |
| Discount on redemption of preferred units                                    | -      | -            | -       | -        | -            | 5,000          | -           | -          | 5,000        |
| Other  | -      | (105)        | -       | -        | (4,518)      | 149            | (5,114)     | 4,558      | (5,030)      |
| <b>Balance, September 30, 2011</b>   | 42,187 | \$ 1,021,855 | 184,496 | \$ 7,350 | \$ 7,112,004 | \$ (1,330,405) | \$ (59,019) | \$ 611,184 | \$ 7,362,969 |

See notes to consolidated financial statements (unaudited).



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

| (Amounts in thousands)                                | Accumulated      |              |               |          |              |                    |                     |                 |              |
|---|------------------|--------------|---------------|----------|--------------|--------------------|---------------------|-----------------|--------------|
|   | Preferred Shares |              | Common Shares |          | Additional   | Earnings Less Than | Other Comprehensive | Non-controlling | Total        |
|   | Shares           | Amount       | Shares        | Amount   | Capital      | Distributions      | Income (Loss)       | Interests       | Equity       |
| <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  | -                | -            | -             | -        | -            | 531,125            | -                   | 30,928          | 562,053      |
| Dividends on common shares                            | -                | -            | -             | -        | -            | (384,353)          | -                   | -               | (384,353)    |
| Dividends on preferred shares                         | -                | -            | -             | -        | -            | (56,187)           | -                   | -               | (56,187)     |
| Issuance of Series K preferred shares                 | 12,000           | 291,144      | -             | -        | -            | -                  | -                   | -               | 291,144      |
| Redemption of Series E preferred shares               | (3,000)          | (75,000)     | -             | -        | -            | -                  | -                   | -               | (75,000)     |
| Common shares issued:                                 |                  |              |               |          |              |                    |                     |                 |              |
| Upon redemption of Class A units, at redemption value | -                | -            | 624           | 25       | 51,191       | -                  | -                   | -               | 51,216       |
| Under employees' share option plan                    | -                | -            | 414           | 16       | 8,915        | (16,389)           | -                   | -               | (7,458)      |
| Under dividend reinvestment plan                      | -                | -            | 15            | 1        | 1,269        | -                  | -                   | -               | 1,270        |
| Contributions:  | -                | -            | -             | -        | -            | -                  | -                   | 120,606         | 120,606      |

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|  |     |       |   |   |          |        |           |          |           |
|--|-----|-------|---|---|----------|--------|-----------|----------|-----------|
| Real Estate Fund Other   | -   | -     | - | - | -        | -      | -         | 140      | 140       |
| Distributions:   |     |       |   |   |          |        |           |          |           |
| Real Estate Fund   | -   | -     | - | - | -        | -      | -         | (44,910) | (44,910)  |
| Other  | -   | -     | - | - | -        | -      | -         | (10)     | (10)      |
| Conversion of Series A preferred shares to common shares                   | (2) | (105) | 3 | - | 105      | -      | -         | -        | -         |
| Deferred compensation shares and options                                   | -   | -     | 7 | - | 11,009   | (339)  | -         | -        | 10,670    |
| Change in unrealized net gain (loss) on securities available-for-sale      | -   | -     | - | - | -        | -      | (202,167) | -        | (202,167) |
| Pro rata share of other comprehensive loss of nonconsolidated subsidiaries | -   | -     | - | - | -        | -      | (38,861)  | -        | (38,861)  |
| Change in value of interest rate swap                                      | -   | -     | - | - | -        | -      | (8,868)   | -        | (8,868)   |
| Adjustments to carry redeemable Class A units at redemption value          | -   | -     | - | - | (63,657) | -      | -         | -        | (63,657)  |
| Redeemable noncontrolling interests' share of above adjustments            | -   | -     | - | - | -        | -      | 15,717    | -        | 15,717    |
| Discount on redemption of preferred units                                  | -   | -     | - | - | -        | 11,700 | -         | -        | 11,700    |

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|  |        |              |         |          |              |                |              |            |              |
|--|--------|--------------|---------|----------|--------------|----------------|--------------|------------|--------------|
| Other                                      | -      | -            | -       | -        | -            | (2,971)        | 343          | (10)       | (2,638)      |
| <b>Balance,<br/>September<br/>30, 2012</b> | 51,185 | \$ 1,237,699 | 186,143 | \$ 7,415 | \$ 7,136,090 | \$ (1,319,118) | \$ (160,107) | \$ 786,875 | \$ 7,688,854 |

See notes to consolidated financial statements (unaudited).

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

|  | <b>For the Nine Months Ended</b> |             |
|--|----------------------------------|-------------|
|  | <b>September 30,</b>             |             |
|  | <b>2012</b>                      | <b>2011</b> |
| (Amounts in thousands)   |                                  |             |
| <b>Cash Flows from Operating Activities:</b>                                       |                                  |             |
| Net income   | \$ 602,648                       | \$ 643,013  |
| Adjustments to reconcile net income to net cash provided by operating activities:  |                                  |             |
| Depreciation and amortization (including amortization of deferred financing costs) | 419,007                          | 414,992     |
| Net gains on sale of real estate   | (203,801)                        | (51,623)    |
| Equity in net income of partially owned entities, including Toys "R" Us            | (142,187)                        | (135,829)   |
| Return of capital from Real Estate Fund investments                                | 61,052                           | -           |
| Distributions of income from partially owned entities                              | 59,322                           | 75,612      |
| Straight-lining of rental income   | (55,553)                         | (38,262)    |
| Loss from the mark-to-market of J.C. Penney derivative position                    | 53,343                           | 27,136      |
| Amortization of below-market leases, net   | (39,693)                         | (49,988)    |
| Other non-cash adjustments   | 39,360                           | 20,261      |
| Net unrealized gain on Real Estate Fund investments                                | (33,537)                         | (19,209)    |
| Gain on sale of Canadian Trade Shows   | (31,105)                         | -           |
| Impairment losses  | 13,511                           | -           |
| Net gain on disposition of wholly owned and partially owned assets                 | (4,856)                          | (7,975)     |
| Net gain on extinguishment of debt   | -                                | (83,907)    |
| Mezzanine loans loss reversal and net gain on disposition                          | -                                | (82,744)    |
| Changes in operating assets and liabilities:                                       |                                  |             |
| Real Estate Fund investments   | (163,307)                        | (97,785)    |
| Accounts receivable, net   | (9,444)                          | 11,292      |
| Prepaid assets   | (52,895)                         | (68,558)    |
| Other assets   | (43,103)                         | (44,617)    |
| Accounts payable and accrued expenses  | 34,546                           | 32,227      |
| Other liabilities  | 7,338                            | 22,635      |
| Net cash provided by operating activities  | 510,646                          | 566,671     |
| <b>Cash Flows from Investing Activities:</b>                                       |                                  |             |
| Proceeds from sales of real estate and related investments                         | 408,856                          | 135,762     |
| Additions to real estate   | (138,060)                        | (109,963)   |
| Funding of J.C. Penney derivative collateral                                       | (121,117)                        | (33,850)    |
| Investments in partially owned entities  | (116,264)                        | (440,865)   |
| Development costs and construction in progress                                     | (106,502)                        | (52,816)    |
| Return of J.C. Penney derivative collateral  | 89,850                           | 28,700      |



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|   |          |          |
|---|----------|----------|
| Acquisitions of real estate and other                           | (73,069) | -        |
| Restricted cash   | (62,813) | 121,463  |
| Proceeds from sales of marketable securities                    | 58,460   | 19,301   |
| Proceeds from the sale of Canadian Trade Shows                  | 52,504   | -        |
| Distributions of capital from partially owned entities          | 26,665   | 274,283  |
| Proceeds from the repayment of loan to officer                  | 13,123   | -        |
| Proceeds from sales and repayments of mezzanine loans and other | 2,379    | 100,525  |
| Investments in mezzanine loans receivable                       | -        | (44,215) |
| Net cash provided by (used in) investing activities             | 34,012   | (1,675)  |
| See notes to consolidated financial statements (unaudited).     |          |          |

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

|  | <b>For the Nine Months Ended<br/>September 30,</b> |                |
|--|--|----------------|
|  | <b>2012</b>  | <b>2011</b>    |
| <i>(Amounts in thousands)</i>  |  |                |
| <b>Cash Flows from Financing Activities:</b>   |  |                |
| Repayments of borrowings   | \$ (2,070,295)                                     | \$ (2,666,610) |
| Proceeds from borrowings   | 1,773,000  | 2,184,167      |
| Dividends paid on common shares  | (384,353)  | (381,382)      |
| Proceeds from the issuance of preferred shares   | 291,144  | 239,037        |
| Purchases of outstanding preferred units and shares  | (243,300)  | (28,000)       |
| Contributions from noncontrolling interests  | 120,746  | 109,605        |
| Distributions to noncontrolling interests  | (80,994)   | (77,330)       |
| Dividends paid on preferred shares   | (54,034)   | (43,675)       |
| Repurchase of shares related to stock compensation agreements and/or related tax withholdings                                  | (30,034)   | (747)          |
| Debt issuance and other costs  | (17,417)   | (28,614)       |
| Proceeds received from exercise of employee share options  | 10,210   | 22,947         |
| Net cash used in financing activities  | (685,327)  | (670,602)      |
| Net decrease in cash and cash equivalents  | (140,669)  | (105,606)      |
| Cash and cash equivalents at beginning of period   | 606,553  | 690,789        |
| Cash and cash equivalents at end of period   | \$ 465,884   | \$ 585,183     |
| <b>Supplemental Disclosure of Cash Flow Information:</b>   |  |                |
| Cash payments for interest, excluding capitalized interest of \$7,884 and \$0  | \$ 368,018   | \$ 388,938     |
| Cash payments for income taxes   | \$ 19,222  | \$ 10,299      |
| <b>Non-Cash Investing and Financing Activities:</b>  |  |                |
| Change in unrealized net loss on securities available-for-sale   | \$ (202,167)                                       | \$ (120,334)   |
| Adjustments to carry redeemable Class A units at redemption value  | (63,657)   | 114,628        |
| L.A. Mart seller financing   | 35,000   | -              |
| Common shares issued upon redemption of Class A units, at redemption value   | 51,216   | 38,220         |
| Contribution of mezzanine loan receivable to a joint venture Marriott Marquis Times Square - retail and signage capital lease: | -  | 73,750         |
| Asset (included in development costs and construction in progress)   | 240,000  | -              |
| Liability (included in other liabilities)  | (240,000)  | -              |
| Like-kind exchange of real estate  | 230,913  | 45,625         |
| Decrease in assets and liabilities resulting from deconsolidation of discontinued operations:                                  |  |                |

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|  |           |           |
|--|-----------|-----------|
| Assets related to discontinued operations      | -         | (145,333) |
| Liabilities related to discontinued operations | -         | (232,502) |
| Write-off of fully depreciated assets          | (151,496) | (58,279)  |

See notes to consolidated financial statements (unaudited).

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

**1. Organization**

Vornado Realty Trust (“Vornado”) is a fully integrated real estate investment trust (“REIT”) and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). Accordingly, Vornado’s cash flow and ability to pay dividends to its shareholders is dependent upon the cash flow of the Operating Partnership and the ability of its direct and indirect subsidiaries to first satisfy their obligations to creditors. Vornado is the sole general partner of, and owned approximately 93.8% of the common limited partnership interest in the Operating Partnership at September 30, 2012. All references to “we,” “us,” “our,” the “Company” and “Vornado” refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

**2. Basis of Presentation**

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado, and the Operating Partnership and its consolidated partially owned entities. All intercompany amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (the “SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2011, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and nine months ended September 30, 2012 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 May 2011, the Financial Accounting Standards Board (“FASB”) issued Update No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (“ASU No. 2011-04”). ASU No. 2011-04 provides a uniform framework for fair value measurements and related disclosures between GAAP and International Financial Reporting Standards (“IFRS”) and requires additional disclosures, including: (i) quantitative information about unobservable inputs used, a description of the valuation processes used, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs, for Level 3 fair value measurements; (ii) fair value of financial instruments not measured at fair value but for which disclosure of fair value is required, based on their levels in the fair value hierarchy; and (iii) transfers between Level 1 and Level 2 of the fair value hierarchy. The adoption of this update on January 1, 2012 did not have a material impact on our consolidated financial statements, but resulted in additional fair value measurement disclosures (see Note 14 – Fair Value Measurements).

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**4. Acquisitions**

On July 5, 2012, we entered into an agreement to acquire a retail condominium located at 666 Fifth Avenue at 53rd Street for \$707,000,000. The property has 126 feet of frontage on Fifth Avenue and contains 114,000 square feet, 39,000 square feet in fee and 75,000 square feet by long-term lease from the 666 Fifth Avenue office condominium, which is 49.5% owned by Vornado. The acquisition will be funded with proceeds from asset sales and property level debt and is expected to close in the fourth quarter, subject to customary closing conditions.

On July 30, 2012, we entered into a lease with Host Hotels & Resorts, Inc. (NYSE: HST) (“Host”), under which we will redevelop the retail and signage components of the Marriott Marquis Times Square Hotel. The Marriott Marquis with over 1,900 rooms is one of the largest hotels in Manhattan. It is located in the heart of the bow-tie of Times Square and spans the entire block front from 45th Street to 46th Street on Broadway. The Marriott Marquis is directly across from our 1540 Broadway iconic retail property leased to Forever 21 and Disney flagship stores. We plan to spend as much as \$140,000,000 to redevelop and substantially expand the existing retail space, including converting the below grade parking garage into retail, and creating six-story, 300 foot wide block front, dynamic LED signs. During the term of the lease we will pay fixed rent equal to the sum of \$12,500,000 plus a portion of the property’s net cash flow, after we receive a 5.2% preferred return on our invested capital. The lease contains put/call options which, if exercised, would lead to our ownership. Host can exercise the put option during defined periods following the conversion of the project to a condominium. We can exercise our call option under the same terms, at any time after the fifteenth year of the lease term. We are accounting for this lease as a “capital lease” and have recorded a \$240,000,000 capital lease asset and liability, which are included as a component of “development and construction in progress” and “other liabilities,” respectively, on our consolidated balance sheet. Although we have commenced paying the annual rent, there will be no income statement activity until the redevelopment is substantially complete.

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

In February 2011, the Fund’s subscription period closed with an aggregate of \$800,000,000 of capital commitments, of which we committed \$200,000,000. We are the general partner and investment manager of the Fund, which has an eight-year term and a three-year investment period. During the investment period, which concludes in July 2013, 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.

On April 26, 2012, the Fund acquired 520 Broadway, a 112,000 square foot office building located in Santa Monica, California for \$59,650,000 and subsequently placed a \$30,000,000 mortgage loan on the property. The three-year loan bears interest at LIBOR plus 2.25% and has two one-year extension options.

On July 2, 2012, the Fund acquired 1100 Lincoln Road, a 167,000 square foot retail property, the western anchor of the Lincoln Road Shopping District in Miami Beach, Florida, for \$132,000,000. The purchase price consisted of \$66,000,000 in cash and a \$66,000,000 mortgage loan. The three-year loan bears interest at LIBOR plus 2.75% and has two one-year extension options.

On August 20, 2012, the Fund acquired 501 Broadway, a 9,000 square foot retail property in New York for \$31,000,000. The purchase price consisted of \$11,000,000 in cash and a \$20,000,000 mortgage loan. The three-year loan bears interest at LIBOR plus 2.75% with a floor of 3.50%, and has two one-year extension options.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

**5. Vornado Capital Partners Real Estate Fund (the "Fund") - continued**

At September 30, 2012, the Fund had eight investments with an aggregate fair value of approximately \$482,442,000, or \$45,818,000 in excess of cost, and had remaining unfunded commitments of \$314,371,000, of which our share was \$78,592,750. Below is a summary of income from the Fund for the three and nine months ended September 30, 2012 and 2011.

| (Amounts in thousands)  | For the Three Months<br>Ended September 30, |          | For the Nine Months<br>Ended September 30, |          |
|---|---|----------|--|----------|
|   | 2012  | 2011     | 2012                                       | 2011     |
| Operating (loss) income   | \$ (49)                                     | \$ (286) | \$ 4,035                                   | \$ 3,197 |
| Net realized gain   | -   | -        | -  | 3,085    |
| Net unrealized gains  | 5,558                                       | 5,639    | 33,537                                     | 19,209   |
| Income from Real Estate Fund  | 5,509                                       | 5,353    | 37,572                                     | 25,491   |
| Less (income) attributable to noncontrolling interests              | (4,787)                                     | (3,675)  | (25,026)                                   | (15,703) |
| Income from Real Estate Fund attributable to Vornado <sup>(1)</sup> | \$ 722                                      | \$ 1,678 | \$ 12,546                                  | \$ 9,788 |

(1) Excludes management, leasing and development fees of \$681 and \$638 for the three months ended September 30, 2012 and 2011, respectively, and \$2,025 and \$1,803 for the nine months ended September 30, 2012 and 2011, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

**6. Marketable Securities and Derivative Instruments***Marketable Securities*

Our portfolio of marketable securities is comprised of debt and equity securities that are classified as available for sale. Available for sale securities are presented on our consolidated balance sheets at fair value. Gains and losses



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resulting from the mark-to-market of these securities are included in “other comprehensive income (loss).” 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.

In the nine months ended September 30, 2012 and 2011, we sold certain marketable securities for aggregate proceeds of \$58,460,000 and \$19,301,000, resulting in net gains of \$3,582,000 and \$2,139,000, respectively.

Below is a summary of our marketable securities portfolio as of September 30, 2012 and December 31, 2011.

|                    | As of September 30, 2012 |            |            |                        | As of December 31, 2011 |            |            |                 |
|--------------------|--------------------------|------------|------------|------------------------|-------------------------|------------|------------|-----------------|
|                    | Maturity                 | Fair Value | GAAP Cost  | Unrealized (Loss) Gain | Maturity                | Fair Value | GAAP Cost  | Unrealized Gain |
| Equity securities: |                          |            |            |                        |                         |            |            |                 |
| J.C.               |                          |            |            |                        |                         |            |            |                 |
| Penney             | n/a                      | \$ 451,406 | \$ 591,214 | \$ (139,808)           | n/a                     | \$ 653,228 | \$ 591,069 | \$ 62,159       |
| Other              | n/a                      | 33,595     | 14,228     | 19,367                 | n/a                     | 30,568     | 14,585     | 15,983          |
| Debt securities    |                          |            |            |                        | 04/13 - 10/18           |            |            |                 |
|                    | n/a                      | -          | -          | -                      |                         | 57,525     | 53,941     | 3,584           |
|                    |                          | \$ 485,001 | \$ 605,442 | \$ (120,441)           |                         | \$ 741,321 | \$ 659,595 | \$ 81,726       |

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**6. Marketable Securities and Derivative Instruments - continued**

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

We own 23,400,000 J.C. Penney common shares, or 10.7% of its outstanding common shares. Below are the details of our investment.

We own 18,584,010 common shares at an average economic cost of \$25.76 per share, or \$478,677,000 in the aggregate. As of September 30, 2012, these shares have an aggregate fair value of \$451,406,000, based on J.C. Penney's closing share price of \$24.29 per share. Unrealized gains and losses from the mark-to-market of these shares are included in "other comprehensive income (loss)." The three and nine months ended September 30, 2012 include \$18,213,000 of unrealized gains and \$201,967,000 of unrealized losses, respectively. The three and nine months ended September 30, 2011 include unrealized losses of \$144,212,000 and \$102,920,000, respectively.

We also own an economic interest in 4,815,990 common shares through a forward contract at a weighted average strike price of \$29.01 per share, or \$139,723,000 in the aggregate. The forward contract was amended on October 8, 2012, such that, among other things, the 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 income (loss), net" on our consolidated statements of income. In the three and nine months ended September 30, 2012 we recognized income of \$4,344,000 and a loss of \$53,343,000, respectively, from the mark-to-market of the underlying common shares, and as of September 30, 2012, have funded \$31,267,000 in connection with this derivative position. In the three and nine months ended September 30, 2011, we recognized losses of \$37,537,000 and \$27,136,000, respectively, from the mark-to-market of the underlying common shares.

At September 30, 2012, the aggregate economic net loss on our investment in J.C. Penney, after dividends, was \$20,667,000, based on our economic cost of \$26.43 per share.

## 7. Investments in Partially Owned Entities

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

As of September 30, 2012, we own 32.5% of Toys. The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income accounts for more than 80% of its fiscal year net income. We account for our investment in Toys under the equity method and record our 32.5% share of Toys net income or loss on a one-quarter lag basis because Toys' fiscal year ends on the Saturday nearest January 31, and our fiscal year ends on December 31. As of September 30, 2012, the carrying amount of our investment in Toys does not differ materially from our share of the equity in the net assets of Toys on a purchase accounting basis.

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

(Amounts in thousands)

|  | <b>Balance as of</b>              |                      |                                  |                      |
|--|-----------------------------------|----------------------|----------------------------------|----------------------|
|  | <b>July 28, 2012</b>              |                      | <b>October 29, 2011</b>          |                      |
| <b>Balance Sheet:</b>                  |                                   |                      |                                  |                      |
| Assets                                 | \$ 11,680,000                     |                      | \$ 13,221,000                    |                      |
| Liabilities                            | 9,836,000                         |                      | 11,530,000                       |                      |
| Noncontrolling interests               | 39,000                            |                      | -                                |                      |
| Toys "R" Us, Inc. equity               | 1,805,000                         |                      | 1,691,000                        |                      |
|  | <b>For the Three Months Ended</b> |                      | <b>For the Nine Months Ended</b> |                      |
| <b>Income Statement:</b>               | <b>July 28, 2012</b>              | <b>July 30, 2011</b> | <b>July 28, 2012</b>             | <b>July 30, 2011</b> |
| Total revenues                         | \$ 2,552,000                      | \$ 2,648,000         | \$ 11,089,000                    | \$ 11,256,000        |
| Net (loss) income attributable to Toys | (34,000)                          | (36,000)             | 249,000                          | 227,000              |

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

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

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

As of September 30, 2012, we own 1,654,068 Alexander's common shares, or approximately 32.4% of Alexander's common equity. We manage, lease and develop Alexander's properties pursuant to agreements which expire in March of each year and are automatically renewable. As of September 30, 2012, Alexander's owed us \$39,794,000 in fees under these agreements.

As of September 30, 2012, the market value of our investment in Alexander's, based on Alexander's September 30, 2012 closing share price of \$427.49, was \$707,098,000, or \$520,384,000 in excess of the carrying amount on our consolidated balance sheet. As of September 30, 2012, 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 \$57,292,000. 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 amortization 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.

On October 21, 2012, Alexander's entered into an agreement to sell its Kings Plaza Regional Shopping Center located in Brooklyn, New York, for \$751,000,000. Upon completion of the sale, we will recognize a financial statement gain of approximately \$181,000,000. Alexander's expects to distribute the taxable gain to its stockholders as a special long-term capital gain dividend, of which our share is approximately \$202,000,000 and we expect to pay this amount to our common shareholders as a special long-term capital gain dividend. The sale, which is subject to customary closing conditions, is expected to be completed in the fourth quarter.

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

(Amounts in thousands)

|  | <b>Balance as of</b>              |                      |                                  |                      |
|--|-----------------------------------|----------------------|----------------------------------|----------------------|
|  | <b>September 30,</b>              |                      | <b>December 31,</b>              |                      |
|  | <b>2012</b>                       |                      | <b>2011</b>                      |                      |
| <b>Balance Sheet:</b>                  |                                   |                      |                                  |                      |
| Assets                                 |                                   |                      | \$                               | 1,771,000            |
| Liabilities                            |                                   |                      | \$                               | 1,408,000            |
| Noncontrolling interests               |                                   |                      |                                  | 4,000                |
| Stockholders' equity                   |                                   |                      |                                  | 359,000              |
|  |                                   |                      |                                  |                      |
|  | <b>For the Three Months Ended</b> |                      | <b>For the Nine Months Ended</b> |                      |
|  | <b>September 30,</b>              | <b>September 30,</b> | <b>September 30,</b>             | <b>September 30,</b> |
|  | <b>2012</b>                       | <b>2011</b>          | <b>2012</b>                      | <b>2011</b>          |
| <b>Income Statement:</b>               |                                   |                      |                                  |                      |
| Total revenues                         | \$                                | 49,000               | \$                               | 143,000              |
| Net income attributable to Alexander's |                                   | 20,000               |                                  | 59,000               |
|  | 19,000                            |                      | 57,000                           |                      |

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

As of September 30, 2012, we own 18,468,969 Lexington common shares, or approximately 11.8% of Lexington's common equity. We account for our investment in Lexington under the equity method because we believe we have the ability to exercise significant influence over Lexington's operating and financial policies, based on, among other factors, our representation on Lexington's Board of Trustees and the level of our ownership in Lexington as compared to other shareholders. We record our pro rata share of Lexington's net income or loss on a one-quarter lag basis because we file our consolidated financial statements on Form 10-K and 10-Q prior to the time that Lexington files its consolidated financial statements.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 7. Investments in Partially Owned Entities – continued

Based on Lexington's September 30, 2012 closing share price of \$9.66, the market value of our investment in Lexington was \$178,410,000, or \$128,139,000 in excess of the September 30, 2012 carrying amount on our consolidated balance sheet. As of September 30, 2012, the carrying amount of our investment in Lexington was less than our share of the equity in the net assets of Lexington by approximately \$45,445,000. This basis difference resulted primarily from \$107,882,000 of non-cash impairment charges recognized in 2008, partially offset by purchase accounting for our acquisition of an additional 8,000,000 common shares of Lexington in October 2008, of which the majority relates to our estimate of the fair values of Lexington's real estate (land and buildings) as compared to the carrying amounts in Lexington's consolidated financial statements. We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This amortization is not material to our share of equity in Lexington's net income or loss. The basis difference related to the land will be recognized upon disposition of our investment. Below is a summary of Lexington's latest available financial information:

(Amounts in thousands)

|                           | <b>Balance as of</b>              |                      |                                  |                      |
|---------------------------|-----------------------------------|----------------------|----------------------------------|----------------------|
|                           | <b>June 30, 2012</b>              |                      | <b>September 30,</b>             |                      |
|                           |                                   |                      | <b>2011</b>                      |                      |
| <b>Balance Sheet:</b>     |                                   |                      |                                  |                      |
| Assets                    |                                   |                      | \$ 3,164,000                     | \$ 3,164,000         |
| Liabilities               |                                   |                      | 1,937,000                        | 1,888,000            |
| Noncontrolling interests  |                                   |                      | 28,000                           | 59,000               |
| Shareholders' equity      |                                   |                      | 1,052,000                        | 1,217,000            |
|                           | <b>For the Three Months Ended</b> |                      | <b>For the Nine Months Ended</b> |                      |
| <b>Income Statement:</b>  | <b>June 30, 2012</b>              | <b>June 30, 2011</b> | <b>June 30, 2012</b>             | <b>June 30, 2011</b> |
| Total revenues            | \$ 84,000                         | \$ 78,000            | \$ 250,000                       | \$ 238,000           |
| Net income (loss)         |                                   |                      |                                  |                      |
| attributable to Lexington | 5,000                             | (44,000)             | 22,000                           | (49,000)             |

In October 2012, Lexington sold 15,000,000 shares in an underwritten public offering at a public offering price of \$9.45 per share. As a result, our ownership in Lexington will decrease to 10.8% and we will record a \$12,983,000 net gain in connection with this stock issuance, in the fourth quarter.

*LNR Property LLC (“LNR”)*

As of September 30, 2012, we own a 26.2% equity interest in LNR. We account for our investment in LNR under the equity method and record our 26.2% share of LNR’s net income or loss on a one-quarter lag basis because we file our consolidated financial statements on Form 10-K and 10-Q prior to receiving LNR’s consolidated financial statements.

LNR consolidates certain Commercial Mortgage-Backed Securities (“CMBS”) and Collateralized Debt Obligation (“CDO”) trusts for which it is the primary beneficiary. The assets of these trusts (primarily commercial mortgage loans), which aggregate approximately \$83 billion as of June 30, 2012, are the sole source of repayment of the related liabilities, which are non-recourse to LNR and its equity holders, including us. Changes in the fair value of these assets each period are offset by changes in the fair value of the related liabilities through LNR’s consolidated income statement. As of September 30, 2012, the carrying amount of our investment in LNR does not materially differ from our share of LNR’s equity. Below is a summary of LNR’s latest available financial information:

(Amounts in thousands)

|                                | <b>Balance as of</b>              |                      |                                  |                      |
|--------------------------------|-----------------------------------|----------------------|----------------------------------|----------------------|
|                                | <b>June 30, 2012</b>              |                      | <b>September 30,</b>             |                      |
|                                |                                   |                      | <b>2011</b>                      |                      |
| <b>Balance Sheet:</b>          |                                   |                      |                                  |                      |
| Assets                         |                                   |                      | \$ 83,899,000                    | \$ 128,536,000       |
| Liabilities                    |                                   |                      | 83,087,000                       | 127,809,000          |
| Noncontrolling interests       |                                   |                      | 9,000                            | 55,000               |
| LNR Property                   |                                   |                      |                                  |                      |
| Corporation equity             |                                   |                      | 803,000                          | 672,000              |
|                                | <b>For the Three Months Ended</b> |                      | <b>For the Nine Months Ended</b> |                      |
| <b>Income Statement:</b>       | <b>June 30, 2012</b>              | <b>June 30, 2011</b> | <b>June 30, 2012</b>             | <b>June 30, 2011</b> |
| Total revenues                 | \$ 59,000                         | \$ 73,000            | \$ 163,000                       | \$ 156,000           |
| Net income attributable to LNR | 63,000                            | 52,000               | 150,000                          | 152,000              |

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 7. Investments in Partially Owned Entities – continued

Below is a schedule of our investments in partially owned entities as of September 30, 2012 and December 31, 2011.

| (Amounts in thousands)                               | Percentage<br>Ownership at | Balance as of         |                      |
|--|----------------------------|-----------------------|----------------------|
|  |                            | September 30,<br>2012 | December 31,<br>2011 |
| <b>Investments:</b>                                  | <b>September 30, 2012</b>  |                       |                      |
| Toys   | 32.5 % <sup>(1)</sup>      | \$ 549,421            | \$ 506,809           |
| Alexander's  | 32.4 %                     | \$ 186,714            | \$ 189,775           |
| Lexington  | 11.8 % <sup>(2)</sup>      | 50,271                | 57,402               |
| LNR  | 26.2 %                     | 197,231               | 174,408              |
| India real estate ventures                           | 4.0%-36.5%                 | 94,241                | 80,499               |
| Partially owned office buildings:                    |                            |                       |                      |
| 280 Park Avenue                                      | 49.5 %                     | 190,034               | 184,516              |
|  | 43.7%-50.4%                |                       |                      |
| Rosslyn Plaza  |                            | 62,272                | 53,333               |
| West 57th Street properties                          | 50.0 %                     | 57,920                | 58,529               |
| One Park Avenue                                      | 30.3 %                     | 50,275                | 47,568               |
| 666 Fifth Avenue Office<br>Condominium               | 49.5 %                     | 34,162                | 23,655               |
| 330 Madison Avenue                                   | 25.0 %                     | 24,900                | 20,353               |
| 1101 17th Street                                     | 55.0 %                     | 22,271                | 20,407               |
| Warner Building                                      | 55.0 %                     | 11,603                | 2,715                |
| Fairfax Square                                       | 20.0 %                     | 5,870                 | 6,343                |
| Other partially owned office<br>buildings            | Various                    | 10,042                | 11,547               |
| Other investments:                                   |                            |                       |                      |
| Independence Plaza Partnership<br><sup>(3)</sup>     | 51.0 %                     | 53,545                | 48,511               |
| Verde Realty Operating<br>Partnership <sup>(4)</sup> | 8.3 %                      | 52,910                | 59,801               |
| Downtown Crossing, Boston                            | 50.0 %                     | 47,605                | 46,691               |
| Monmouth Mall  | 50.0 %                     | 7,373                 | 7,536                |



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|                                  |         |              |              |
|----------------------------------|---------|--------------|--------------|
| Other investments <sup>(5)</sup> | Various | 160,471      | 140,061      |
|                                  |         | \$ 1,319,710 | \$ 1,233,650 |

(1) 32.7% at December 31, 2011.

(2) 12.0% at December 31, 2011.

(3) Represents an investment in mezzanine loans to the property owner entity.

(4) In the third quarter of 2012, we converted our 2,015,151 units in Verde Realty Operating Partnership into 2,015,151 common shares of Verde Realty ("Verde"). Pursuant to a merger agreement which was approved by Verde shareholders on September 14, 2012, we accepted an offer to receive cash of \$13.85 per share, or \$27,910 in the aggregate; accordingly, we recognized a \$4,936 impairment loss in the third quarter. At September 30, 2012, the \$52,910 carrying amount of our investment in Verde is comprised of the \$27,910 value of the common shares and \$25,000 of convertible debentures that are senior to the equity and mature in December 2018. Upon completion of the merger, we will reclassify the convertible debentures to other assets.

(5) Includes interests in 85 10th Avenue, Farley Project, Suffolk Downs, Dune Capital L.P., Fashion Centre Mall and others.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 7. Investments in Partially Owned Entities - continued

Below is a schedule of income recognized from investments in partially owned entities for the three and nine months ended September 30, 2012 and 2011.

| (Amounts in thousands)                                 | Percentage<br>Ownership<br>September | For the Three Months<br>Ended September 30, |             | For the Nine Months<br>Ended September 30, |             |
|--|--------------------------------------|---|-------------|--|-------------|
| <b>Our Share of Net Income (Loss):</b>                 | <b>30, 2012</b>                      | <b>2012</b>                                 | <b>2011</b> | <b>2012</b>                                | <b>2011</b> |
| Toys:  | 32.5 %                               |   |             |  |             |
| Equity in net (loss) income before<br>income taxes     |                                      | \$ (22,074)                                 | \$ (26,773) | \$ 99,649                                  | \$ 104,049  |
| Income tax benefit (expense)                           |                                      | 11,118                                      | 15,135      | (17,982)                                   | (29,914)    |
| Equity in net (loss) income                            |                                      | (10,956)                                    | (11,638)    | 81,667                                     | 74,135      |
| Management fees  |                                      | 2,371                                       | 2,334       | 7,029                                      | 6,659       |
|  |                                      | \$ (8,585)                                  | \$ (9,304)  | \$ 88,696                                  | \$ 80,794   |
| Alexander's:   | 32.4 %                               |   |             |  |             |
| Equity in net income                                   |                                      | \$ 7,137                                    | \$ 6,437    | \$ 19,210                                  | \$ 18,507   |
| Fee income   |                                      | 1,821                                       | 1,758       | 5,617                                      | 5,545       |
|  |                                      | 8,958                                       | 8,195       | 24,827                                     | 24,052      |
| Lexington:   | 11.8 %                               |   |             |  |             |
| Equity in net (loss) income                            |                                      | (323)                                       | (617)       | 371  | 449         |
| Net gain resulting from<br>Lexington's stock issuance  |                                      | -   | -           | -  | 9,760       |
|  |                                      | (323)                                       | (617)       | 371  | 10,209      |
| LNR:   | 26.2 %                               |   |             |  |             |
| Equity in net income                                   |                                      | 16,600                                      | 13,656      | 39,319                                     | 24,916      |
| Net gains from asset sales and tax<br>settlement gains |                                      | -   | -           | -  | 14,997      |
|  |                                      | 16,600                                      | 13,656      | 39,319                                     | 39,913      |
| India real estate ventures                             | 4.0%-36.5%                           | 82  | (690)       | (4,526)                                    | (692)       |
| Partially owned office buildings:                      |                                      |   |             |  |             |
| Warner Building:                                       | 55.0 %                               |   |             |  |             |
| Equity in net loss                                     |                                      | (2,839)                                     | (2,783)     | (7,438)                                    | (6,308)     |
| Straight-line reserves and<br>write-off of tenant      |                                      |   |             |  |             |

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|   |             |           |           |           |           |
|---|-------------|-----------|-----------|-----------|-----------|
| improvements  |             | -         | -         | -         | (9,022)   |
|   |             | (2,839)   | (2,783)   | (7,438)   | (15,330)  |
| 280 Park Avenue (acquired in May 2011)                                | 49.5 %      | (1,717)   | (6,461)   | (9,267)   | (8,645)   |
| 666 Fifth Avenue Office Condominium (acquired in December 2011)       | 49.5 %      | 1,744     | -         | 5,244     | -         |
| 330 Madison Avenue  | 25.0 %      | 1,224     | 315       | 2,036     | 1,440     |
| 1101 17th Street  | 55.0 %      | 591       | 671       | 1,920     | 2,094     |
| One Park Avenue (acquired in March 2011)                              | 30.3 %      | 256       | 124       | 890       | (1,347)   |
| West 57th Street properties   | 50.0 %      | 167       | 298       | 732       | 634       |
|   | 43.7%-50.4% |           |           |           |           |
| Rosslyn Plaza   |             | (204)     | (60)      | 99        | 2,160     |
| Fairfax Square  | 20.0 %      | (33)      | (22)      | (85)      | 7         |
| Other partially owned office buildings                                | Various     | 505       | 1,079     | 1,587     | 5,165     |
|   |             | (306)     | (6,839)   | (4,282)   | (13,822)  |
| Other investments:  |             |           |           |           |           |
| Verde Realty Operating Partnership <sup>(1)</sup>                     | 8.3 %       | (5,388)   | 2,413     | (6,000)   | 1,204     |
| Independence Plaza Partnership (acquired in June 2011) <sup>(2)</sup> | 51.0 %      | 1,828     | 1,811     | 5,243     | 1,811     |
| Monmouth Mall   | 50.0 %      | 347       | 631       | 1,007     | 1,588     |
| Downtown Crossing, Boston   | 50.0 %      | (38)      | (408)     | (872)     | (1,156)   |
| Other investments <sup>(3)</sup>                                      | Various     | (492)     | (5,012)   | (1,596)   | (8,072)   |
|   |             | (3,743)   | (565)     | (2,218)   | (4,625)   |
|   |             | \$ 21,268 | \$ 13,140 | \$ 53,491 | \$ 55,035 |

(1) 2012 includes a \$4,936 impairment loss (see note 4 on page 16)

(2) Represents an investment in mezzanine loans to the property owner entity.

(3) Includes interests in 85 10th Avenue, Farley Project, Suffolk Downs, Dune Capital L.P., Fashion Centre Mall and others.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 7. Investments in Partially Owned Entities – continued

Below is a summary of the debt of our partially owned entities as of September 30, 2012 and December 31, 2011, none of which is recourse to us.

| (Amounts in thousands)  | Percentage<br>Ownership<br>at<br>September<br>30,<br>2012 | Maturity  | Interest<br>Rate at<br>September<br>30,<br>2012 | 100% of<br>Partially Owned Entities' Debt at |                      |
|---|---|-----------|---|--|----------------------|
|   |   |           |   | September 30,<br>2012                        | December 31,<br>2011 |
| Toys:   | 32.5 % <sup>(1)</sup>                                     |           |   |  |                      |
| Notes, loans and<br>mortgages payable                           |   | 2013-2021 | 7.40 %  | \$ 5,423,735                                 | \$ 6,047,521         |
| Alexander's:  | 32.4 %  |           |   |  |                      |
| Mortgage notes payable  |   | 2013-2018 | 3.50 %  | \$ 1,319,776                                 | \$ 1,330,932         |
| Lexington:  | 11.8 % <sup>(2)</sup>                                     |           |   |  |                      |
| Mortgage notes payable  |   | 2012-2037 | 5.45 %  | \$ 1,739,466                                 | \$ 1,712,750         |
| LNR:  | 26.2 %  |           |   |  |                      |
| Mortgage notes payable  |   | 2013-2031 | 3.89 %  | \$ 466,882                                   | \$ 353,504           |
| Liabilities of consolidated<br>CMBS and CDO trusts              |   | n/a       | 5.32 %  | 82,522,220                                   | 127,348,336          |
|   |   |           |   | \$ 82,989,102                                | \$ 127,701,840       |
| Partially owned office buildings:                               |   |           |   |  |                      |
| 666 Fifth Avenue Office<br>Condominium mortgage<br>note payable | 49.5 %  | 02/19     | 6.76 %  | \$ 1,090,592                                 | \$ 1,035,884         |
| 280 Park Avenue<br>mortgage notes payable                       | 49.5 %  | 06/16     | 6.65 %  | 738,009                                      | 737,678              |
| Warner Building<br>mortgage note payable                        | 55.0 %  | 05/16     | 6.26 %  | 292,700                                      | 292,700              |
| One Park Avenue<br>mortgage note payable                        | 30.3 %  | 03/16     | 5.00 %  | 250,000                                      | 250,000              |
|   | 25.0 %  | 06/15     | 1.73 %  | 150,000                                      | 150,000              |

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|   |                |           |         |    |           |              |
|---|----------------|-----------|---------|----|-----------|--------------|
| 330 Madison Avenue mortgage note payable                  |                |           |         |    |           |              |
| Fairfax Square mortgage note payable                      | 20.0 %         | 12/14     | 7.00 %  |    | 70,344    | 70,974       |
| Rosslyn Plaza mortgage note payable                       | 43.7% to 50.4% | n/a       | n/a     |    | -         | 56,680       |
| West 57th Street properties mortgage note payable         | 50.0 %         | 02/14     | 4.94 %  |    | 20,628    | 21,864       |
| Other   | Various        | Various   | 6.38 %  |    | 69,839    | 70,230       |
|   |                |           |         | \$ | 2,682,112 | \$ 2,686,010 |
| India Real Estate Ventures:                               |                |           |         |    |           |              |
| TCG Urban Infrastructure Holdings mortgage notes payable  | 25.0 %         | 2012-2022 | 13.13 % | \$ | 241,208   | \$ 226,534   |
| Other:  |                |           |         |    |           |              |
| Verde Realty Operating Partnership mortgage notes payable | 8.3 %          | 2013-2025 | 5.52 %  | \$ | 503,211   | \$ 340,378   |
| Monmouth Mall mortgage note payable                       | 50.0 %         | 09/15     | 5.44 %  |    | 160,662   | 162,153      |
| Other <sup>(3)</sup>                                      | Various        | Various   | 4.93 %  |    | 994,009   | 992,872      |
|   |                |           |         | \$ | 1,657,882 | \$ 1,495,403 |

(1) 32.7% at December 31, 2011.

(2) 12.0% at December 31, 2011.

(3) Includes interests in Suffolk Downs, Fashion Centre Mall 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 \$25,648,473,000 and \$37,531,298,000 at September 30, 2012 and December 31, 2011, 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 \$4,049,108,000 and \$4,199,145,000 at September 30, 2012 and December 31, 2011, respectively.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**8. Discontinued Operations**

**2012 Activity:**

During 2012, we sold or have entered into agreements to sell (i) five Mart properties, (ii) four Washington, DC properties, (iii) 13 non-core strip shopping centers and the Green Acres Mall, for an aggregate of \$1,500,000,000. Below are the details of these transactions.

*Merchandise Mart Properties*

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.

On June 22, 2012, we completed the sale of L.A. Mart, a 784,000 square foot showroom building in Los Angeles, California for \$53,000,000, of which \$18,000,000 was cash and \$35,000,000 was nine-month seller financing at 6.0%.

On July 5, 2012, we entered into agreements to sell the Washington Design Center, the Boston Design Center and the Canadian Trade Shows, for an aggregate of \$175,000,000 in cash. The sales of the Canadian Trade Shows and the Washington Design Center were completed in July 2012 and the sale of the Canadian Trade Shows resulted in an after-tax net gain of \$19,657,000. The sale of the Boston Design Center will result in a net gain of approximately \$5,300,000 and is expected to be completed in the fourth quarter, subject to customary closing conditions.

*Washington, DC Properties*

On July 26, 2012, we completed the sale of 409 Third Street S.W., a 409,000 square foot office building in Washington, DC, for \$200,000,000 in cash, which resulted in a net gain of \$126,621,000. This building is contiguous to the Washington Design Center and was sold to the same purchaser.

On October 26, 2012, we entered into an agreement to sell three office buildings (“Reston Executive”) located in suburban Fairfax County, Virginia, containing 494,000 square feet for \$126,000,000, which will result in a net gain of approximately \$35,000,000. The sale, which is subject to customary closing conditions, is expected to be completed in the fourth quarter.

### *Retail Properties*

In 2012, we sold 12 non-core strip shopping centers in separate transactions, for an aggregate of \$157,000,000 in cash, which resulted in a net gain aggregating \$22,266,000, of which \$4,464,000 was recognized in the third quarter. In addition we have entered into an agreement to sell a building on Market Street, Philadelphia, which is part of the Gallery at Market East for \$60,000,000, which will result in a net gain of approximately \$35,000,000. The sale, which is subject to customary closing conditions, is expected to be completed in the fourth quarter.

On October 21, 2012, we entered into an agreement to sell the Green Acres Mall located in Valley Stream, New York, for \$500,000,000. Net proceeds from the sale will be approximately \$185,000,000. The financial statement gain will be approximately \$195,000,000. The tax gain will be approximately \$304,000,000, which is expected to be deferred as part of a like-kind exchange. The sale, which is expected to be completed in the first quarter of 2013, is subject to customary closing conditions and is conditioned on the closing of the sale of Kings Plaza (an Alexander’s property), which is being sold to the same purchaser.

### **2011 Activity:**

During 2011, we (i) completed the disposition of the High Point Complex in North Carolina, which resulted in an \$83,907,000 net gain on extinguishment of debt and (ii) sold three non-core strip shopping centers and two office buildings in Washington, DC for an aggregate of \$168,000,000 in cash, which resulted in a net gain aggregating \$51,623,000.





## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 8. Discontinued Operations - continued

We have reclassified the revenues and expenses of all of the properties discussed above, as well as eight 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 September 30, 2012 and December 31, 2011 and their combined results of operations for the three and nine months ended September 30, 2012 and 2011.

| (Amounts in thousands)                                      | Assets Related to                                      |                      | Liabilities Related to                                 |                      |
|---|--|----------------------|--|----------------------|
|   | Discontinued Operations as of<br>September 30,<br>2012 | December 31,<br>2011 | Discontinued Operations as of<br>September 30,<br>2012 | December 31,<br>2011 |
| Retail Properties   | \$ 384,973   | \$ 520,014           | \$ 319,233   | \$ 351,083           |
| Washington, DC Properties                                   | 86,933   | 152,568              | 93,000   | 93,000               |
| Merchandise Mart Properties                                 | 66,032   | 376,571              | 66,747   | 74,236               |
| Total   | \$ 537,938   | \$ 1,049,153         | \$ 478,980   | \$ 518,319           |
| (Amounts in thousands)                                      | For the Three Months                                   |                      | For the Nine Months                                    |                      |
|   | Ended September 30,<br>2012                            | 2011                 | Ended September 30,<br>2012                            | 2011                 |
| Total revenues  | \$ 27,651  | \$ 49,656            | \$ 112,585   | \$ 160,747           |
| Total expenses  | 21,082   | 41,212               | 81,508   | 130,571              |
|   | 6,569  | 8,444                | 31,077   | 30,176               |
| Net gains on sale of real estate                            | 131,088  | -                    | 203,801  | 51,623               |
| Gain on sale of Canadian Trade Shows,<br>net of \$11,448 of |  |                      |  |                      |
| income taxes  | 19,657   | -                    | 19,657   | -                    |
| Impairment losses   | -  | -                    | (13,511)   | -                    |
| Net gain on extinguishment of High<br>Point debt            | -  | -                    | -  | 83,907               |
| Income from discontinued operations                         | \$ 157,314   | \$ 8,444             | \$ 241,024   | \$ 165,706           |

## 9. Mezzanine Loans Receivable

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

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As of September 30, 2012 and December 31, 2011, the carrying amount of mezzanine loans receivable was \$131,585,000 and \$133,948,000, respectively. These loans have a weighted average interest rate of 9.53% and maturities ranging from August 2014 to May 2016.

On October 19, 2012, we acquired a 25% participation in a \$475,000,000 first mortgage and mezzanine loan for the acquisition and redevelopment of a 10-story retail building at 701 Seventh Avenue in Times Square. The loan has an interest rate of LIBOR plus 10.2%, with a LIBOR floor of 1.0%. Of the \$475,000,000, we have funded \$93,750,000, representing our 25% share of the \$375,000,000 that has been funded. \$25,000,000, our 25% share of the remaining \$100,000,000, will be funded during the development of the property.

## 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 above-market leases) and liabilities (primarily acquired below-market leases) as of September 30, 2012 and December 31, 2011.

| (Amounts in thousands)   | <b>Balance as of</b>          |                              |
|--|-------------------------------|------------------------------|
|  | <b>September 30,<br/>2012</b> | <b>December 31,<br/>2011</b> |
| <b>Identified intangible assets:</b>                                     |                               |                              |
| Gross amount   | \$ 615,199                    | \$ 642,471                   |
| Accumulated amortization   | (362,516)                     | (347,039)                    |
| Net  | \$ 252,683                    | \$ 295,432                   |
| <b>Identified intangible liabilities (included in deferred revenue):</b> |                               |                              |
| Gross amount   | \$ 816,774                    | \$ 830,411                   |
| Accumulated amortization   | (398,262)                     | (367,525)                    |
| Net  | \$ 418,512                    | \$ 462,886                   |

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of \$13,242,000 and \$15,847,000 for the three months ended September 30, 2012 and 2011, respectively, and \$39,228,000 and \$48,681,000 for the nine months ended September 30, 2012 and 2011, 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, 2013 is as follows:

| (Amounts in thousands) |           |
|------------------------|-----------|
| 2013                   | \$ 42,023 |
| 2014                   | 36,603    |
| 2015                   | 33,816    |
| 2016                   | 31,333    |
| 2017                   | 25,841    |

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Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$11,940,000 and \$15,397,000 for the three months ended September 30, 2012 and 2011, respectively, and \$38,361,000 and \$42,090,000 for the nine months ended September 30, 2012 and 2011, 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, 2013 is as follows:

| (Amounts in thousands) |           |
|------------------------|-----------|
| 2013                   | \$ 40,739 |
| 2014                   | 22,450    |
| 2015                   | 17,244    |
| 2016                   | 14,714    |
| 2017                   | 11,853    |

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 \$408,000 and \$344,000 for the three months ended September 30, 2012 and 2011, respectively, and \$1,182,000 and \$1,033,000 for the nine months ended September 30, 2012 and 2011, respectively. Estimated annual amortization of these below-market leases, net of above-market leases for each of the five succeeding years commencing January 1, 2013 is as follows:

| (Amounts in thousands) |          |
|------------------------|----------|
| 2013                   | \$ 1,472 |
| 2014                   | 1,457    |
| 2015                   | 1,457    |
| 2016                   | 1,457    |
| 2017                   | 1,457    |

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 11. Debt

The following is a summary of our debt:

| (Amounts in thousands)                                    |                 |        | Interest<br>Rate at<br>September<br>30, | Balance at           |  |
|---|-----------------|--------|---|----------------------|--|
|   | Maturity<br>(1) | 2012   | September 30,<br>2012                   | December 31,<br>2011 |  |
| <b>Notes and mortgages payable:</b>                       |                 |        |   |                      |  |
| <b>Fixed rate:</b>  |                 |        |   |                      |  |
| New York:   |                 |        |   |                      |  |
| Two Penn Plaza  | 03/18           | 5.13 % | \$ 425,000                              | \$ 425,000           |  |
| 1290 Avenue of the Americas                               | 01/13           | 5.97 % | 410,021                                 | 413,111              |  |
| 770 Broadway  | 03/16           | 5.65 % | 353,000                                 | 353,000              |  |
| 888 Seventh Avenue  | 01/16           | 5.71 % | 318,554                                 | 318,554              |  |
| 350 Park Avenue <sup>(2)</sup>                            | 01/17           | 3.75 % | 300,000                                 | 430,000              |  |
| 909 Third Avenue  | 04/15           | 5.64 % | 200,241                                 | 203,217              |  |
| 828-850 Madison Avenue<br>Condominium - retail            | 06/18           | 5.29 % | 80,000                                  | 80,000               |  |
| 510 5th Avenue - retail                                   | 01/16           | 5.60 % | 31,377                                  | 31,732               |  |
| Washington, DC:   |                 |        |   |                      |  |
| Skyline Properties <sup>(3)</sup>                         | 02/17           | 5.74 % | 694,711                                 | 678,000              |  |
| River House Apartments                                    | 04/15           | 5.43 % | 195,546                                 | 195,546              |  |
| 2101 L Street <sup>(4)</sup>                              | 08/24           | 3.97 % | 150,000                                 | -                    |  |
| 2121 Crystal Drive  | 03/23           | 5.51 % | 150,000                                 | 150,000              |  |
| Bowen Building  | 06/16           | 6.14 % | 115,022                                 | 115,022              |  |
| 1215 Clark Street, 200 12th<br>Street and 251 18th Street | 01/25           | 7.09 % | 106,628                                 | 108,423              |  |
| West End 25   | 06/21           | 4.88 % | 101,671                                 | 101,671              |  |
| Universal Buildings                                       | 04/14           | 6.49 % | 94,497                                  | 98,239               |  |
| 2011 Crystal Drive  | 08/17           | 7.30 % | 79,865                                  | 80,486               |  |
| 1550 and 1750 Crystal Drive                               | 11/14           | 7.08 % | 74,765                                  | 76,624               |  |
| 220 20th Street   | 02/18           | 4.61 % | 74,246                                  | 75,037               |  |
| 2231 Crystal Drive  | 08/13           | 7.08 % | 42,160                                  | 43,819               |  |
| 1225 Clark Street   | 08/13           | 7.08 % | 25,219                                  | 26,211               |  |
| 1235 Clark Street   | n/a             | n/a    | -                                       | 51,309               |  |
| 1750 Pennsylvania Avenue                                  | n/a             | n/a    | -                                       | 44,330               |  |

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|  |                                |             |             |              |
|--|--------------------------------|-------------|-------------|--------------|
| Retail:                                      |                                |             |             |              |
|  | Cross-collateralized mortgages |             |             |              |
|  | on 40 strip shopping centers   | 09/20       | 4.23 %      | 576,281      |
|  | Montehiedra Town Center        | 07/16       | 6.04 %      | 120,000      |
|  | Broadway Mall                  | 07/13       | 5.30 %      | 85,840       |
|  | North Bergen (Tonnelle Avenue) | 01/18       | 4.59 %      | 75,000       |
|  | Las Catalinas Mall             | 11/13       | 6.97 %      | 54,719       |
|  | Other                          | 06/14-05/36 | 5.12%-7.30% | 87,055       |
|  |                                |             |             | 88,237       |
| Merchandise Mart:                            |                                |             |             |              |
|  | Merchandise Mart               | 12/16       | 5.57 %      | 550,000      |
| Other:                                       |                                |             |             |              |
|  | 555 California Street          | 09/21       | 5.10 %      | 600,000      |
|  | Borgata Land                   | 02/21       | 5.14 %      | 60,000       |
| Total fixed rate notes and mortgages payable |                                |             | 5.40 %      | \$ 6,231,418 |
|  |                                |             |             | \$ 6,321,628 |

See notes on page 24.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 11. Debt - continued

| (Amounts in thousands)   |                 |                      |                  | Interest<br>Rate at | Balance at   |  |
|--|-----------------|----------------------|------------------|---------------------|--------------|--|
|  |                 | Spread<br>over       | September<br>30, | September<br>30,    | December 31, |  |
| Notes and mortgages payable:   | Maturity<br>(1) | LIBOR                | 2012             | 2012                | 2011         |  |
| <b>Variable rate:</b>  |                 |                      |                  |                     |              |  |
| New York:  |                 |                      |                  |                     |              |  |
| Eleven Penn Plaza  | 01/19           | L+235                | 2.58 %           | \$ 330,000          | \$ 330,000   |  |
| 100 West 33rd Street - office<br>& retail <sup>(5)</sup>                         | 03/17           | L+250                | 2.73 %           | 325,000             | 232,000      |  |
| 4 Union Square South - retail  | 04/14           | L+325                | 3.48 %           | 75,000              | 75,000       |  |
| 435 Seventh Avenue -<br>retail <sup>(6)</sup>                                    | 08/19           | L+225                | 2.47 %           | 98,000              | 51,353       |  |
| 866 UN Plaza   | 05/16           | L+125                | 1.48 %           | 44,978              | 44,978       |  |
| Washington, DC:  |                 |                      |                  |                     |              |  |
| River House Apartments<br>2200/2300 Clarendon<br>Boulevard                       | 04/18           | n/a <sup>(7)</sup>   | 1.63 %           | 64,000              | 64,000       |  |
| 1730 M and 1150 17th Street  | 01/15           | L+75                 | 0.98 %           | 48,859              | 53,344       |  |
| 2101 L Street <sup>(4)</sup>   | 06/14           | L+140                | 1.62 %           | 43,581              | 43,581       |  |
|  | n/a             | n/a                  | n/a              | -                   | 150,000      |  |
| Retail:  |                 |                      |                  |                     |              |  |
| Bergen Town Center   | 03/13           | L+150                | 1.73 %           | 282,312             | 283,590      |  |
| San Jose Strip Center  | 03/13           | L+400                | 4.25 %           | 106,332             | 112,476      |  |
| Cross-collateralized<br>mortgages on 40 strip<br>shopping centers <sup>(8)</sup> | 09/20           | L+136 <sup>(8)</sup> | 2.36 %           | 60,000              | 60,000       |  |
| Beverly Connection   | n/a             | n/a                  | n/a              | -                   | 100,000      |  |
| Other  | 11/12           | L+375                | 3.98 %           | 19,427              | 19,876       |  |
| Other:   |                 |                      |                  |                     |              |  |
| 220 Central Park South   | 10/13           | L+275                | 2.97 %           | 123,750             | 123,750      |  |
| Total variable rate notes and mortgages<br>payable                               |                 |                      | 2.50 %           | 1,621,239           | 1,743,948    |  |
| Total notes and mortgages payable  |                 |                      | 4.80 %           | \$7,852,657         | \$8,065,576  |  |

**Senior unsecured notes:**

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|   |       |       |        |             |             |
|---|-------|-------|--------|-------------|-------------|
| Senior unsecured notes due 2015   | 04/15 |       | 4.25 % | \$ 499,586  | \$ 499,462  |
| Senior unsecured notes due 2039 <sup>(9)</sup>  | 10/39 |       | 7.88 % | 460,000     | 460,000     |
| Senior unsecured notes due 2022   | 01/22 |       | 5.00 % | 398,335     | 398,199     |
| Total senior unsecured notes  |       |       | 5.70 % | \$1,357,921 | \$1,357,661 |
| <b>Unsecured revolving credit facilities:</b>   |       |       |        |             |             |
| \$1.25 billion unsecured revolving credit facility  | 11/16 | L+125 | 1.43 % | \$ 600,000  | \$ 138,000  |
| \$1.25 billion unsecured revolving credit facility<br>(\$22,576 reserved for outstanding letters of credit) | 06/16 | L+135 | -      | -           | -           |
| Total unsecured revolving credit facilities   |       |       | 1.43 % | \$ 600,000  | \$ 138,000  |
| <b>3.88% exchangeable senior debentures<sup>(10)</sup></b>  | n/a   |       | n/a    | \$ -        | \$ 497,898  |
| <b>2.85% convertible senior debentures<sup>(10)</sup></b>   | n/a   |       | n/a    | \$ -        | \$ 10,168   |
| See notes on the following page.  |       |       |        |             |             |

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**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 January 9, 2012, we completed a \$300,000 refinancing of this property. The five-year fixed rate loan bears interest at 3.75% and amortizes based on a 30-year schedule beginning in the third year. The proceeds of the new loan and \$132,000 of existing cash were used to repay the existing loan and closing costs.
- (3) In the first quarter of 2012, we notified the lender that due to scheduled lease expirations resulting primarily from the effects of the Base Realignment and Closure statute, the Skyline properties had a 26% vacancy rate, which is expected to increase and, accordingly, cash flows are expected to decrease. As a result, our subsidiary that owns these properties does not have and is not expected to have for some time sufficient funds to pay all of its current obligations, including interest payments to the lender. Based on the projected vacancy and the significant amount of capital required to re-tenant these properties, at our request, the mortgage loan was transferred to the special servicer. In the second quarter of 2012, we entered into a forbearance agreement with the special servicer to apply cash flows of the property, before interest on the loan, towards the repayment of \$4,000 of tenant improvements and leasing commissions we recently funded in connection with a new lease at these properties. In the third quarter, we were repaid our capital in full. The forbearance agreement (amended September 1, 2012, to extend its maturity) provides that through the December 1, 2012 payment date, any interest shortfall would be deferred and added to the principal balance of the loan and not give rise to a loan default. As of September 30, 2012, the deferred interest amounted to \$16,711. We continue to negotiate with the special servicer to restructure the terms of the loan.
- (4) On July 26, 2012, we completed a \$150,000 refinancing of this property. The twelve-year fixed rate loan bears interest at 3.97% and amortizes based on a 30-year schedule beginning in the third year.
- (5) On March 5, 2012, we completed a \$325,000 refinancing of this property. The three-year loan bears interest at LIBOR plus 2.50% and has two one-year extension options. We retained net proceeds of approximately \$87,000, after repaying the existing loan and closing costs.
- (6)

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On August 17, 2012, we completed a \$98,000 refinancing of this property. The seven-year loan bears interest at LIBOR plus 2.25%. We retained net proceeds of approximately \$44,000 after repaying the existing loan and closing costs.

- (7) Interest at the Freddie Mac Reference Note Rate plus 1.53%.
- (8) LIBOR floor of 1.00%.
- (9) 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.
- (10) In April 2012, we redeemed all of the outstanding exchangeable and convertible senior debentures at par, for an aggregate of \$510,215 in cash.

## 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, 2010  | \$ 1,327,974 |
| Net income  | 47,364       |
| Distributions   | (38,393)     |
| Conversion of Class A units into common shares, at redemption value | (38,220)     |
| Adjustments to carry redeemable Class A units at redemption value   | (114,628)    |
| Redemption of Series D-11 redeemable units                          | (28,000)     |
| Other, net  | 4,623        |
| Balance at September 30, 2011                                       | \$ 1,160,720 |
| Balance at December 31, 2011  | \$ 1,160,677 |
| Net income  | 40,595       |
| Distributions   | (34,138)     |
| Conversion of Class A units into common shares, at redemption value | (51,216)     |
| Adjustments to carry redeemable Class A units at redemption value   | 63,657       |
| Redemption of Series D-10 and D-14 redeemable units                 | (168,300)    |
| Other, net  | (15,776)     |
| Balance at September 30, 2012                                       | \$ 995,499   |

On July 19, 2012, we redeemed all of the outstanding 7.0% Series D-10 and 6.75% Series D-14 cumulative redeemable preferred units with an aggregate face amount of \$180,000,000 for \$168,300,000 in cash, plus accrued and unpaid distributions through the date of redemption.

As of September 30, 2012 and December 31, 2011, the aggregate redemption value of redeemable Class A units was \$949,499,000 and \$934,677,000, 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 \$54,865,000 as of September 30, 2012 and December 31, 2011, respectively.

### 13. Shareholders' Equity

On July 11, 2012, we sold 12,000,000 5.70% Series K 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 \$291,144,000, after underwriters' discounts and issuance costs. Dividends on the Series K Preferred Shares are cumulative and payable quarterly in arrears. The Series K 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 K Preferred Shares at a redemption price of \$25.00 per share, plus accrued and unpaid dividends through the date of redemption. The Series K Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

On August 16, 2012, we redeemed all of the outstanding 7.0% Series E Cumulative Redeemable Preferred Shares at par, for an aggregate of \$75,000,000 in cash, plus accrued and unpaid dividends through the date of redemption.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

**14. Fair Value Measurements**

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

*Financial Assets and Liabilities Measured at Fair Value*

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 September 30, 2012 and December 31, 2011, respectively.

| (Amounts in thousands)  | Total      | As of September 30, 2012 |         |         |
|---|------------|--------------------------|---------|---------|
|   |            | Level 1                  | Level 2 | Level 3 |
| Marketable securities   | \$ 485,001 | \$ 485,001               | \$ -    | \$ -    |
| Real Estate Fund investments (75% of which is attributable to noncontrolling interests) | 482,442    | -                        | -       | 482,442 |

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|  |              |            |           |            |
|--|--------------|------------|-----------|------------|
| Deferred compensation plan assets<br>(included in other assets)              | 103,003      | 42,236     | -         | 60,767     |
| J.C. Penney derivative position<br>(included in other assets) <sup>(1)</sup> | 8,524        | -          | 8,524     | -          |
| Total assets   | \$ 1,078,970 | \$ 527,237 | \$ 8,524  | \$ 543,209 |
| Mandatorily redeemable instruments<br>(included in other liabilities)        | \$ 55,097    | \$ 55,097  | \$ -      | \$ -       |
| Interest rate swap (included in other<br>liabilities)                        | 52,935       | -          | 52,935    | -          |
| Total liabilities  | \$ 108,032   | \$ 55,097  | \$ 52,935 | \$ -       |

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

**As of December 31, 2011**

| (Amounts in thousands)  | <b>Total</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|---|--------------|----------------|----------------|----------------|
| Marketable securities   | \$ 741,321   | \$ 741,321     | \$ -           | \$ -           |
| Real Estate Fund investments (75% of<br>which is attributable to<br>noncontrolling interests) | 346,650      | -              | -              | 346,650        |
| Deferred compensation plan assets<br>(included in other assets)                               | 95,457       | 39,236         | -              | 56,221         |
| J.C. Penney derivative position<br>(included in other assets) <sup>(1)</sup>                  | 30,600       | -              | 30,600         | -              |
| Total assets  | \$ 1,214,028 | \$ 780,557     | \$ 30,600      | \$ 402,871     |
| Mandatorily redeemable instruments<br>(included in other liabilities)                         | \$ 54,865    | \$ 54,865      | \$ -           | \$ -           |
| Interest rate swap (included in other<br>liabilities)   | 44,114       | -              | 44,114         | -              |
| Total liabilities   | \$ 98,979    | \$ 54,865      | \$ 44,114      | \$ -           |

(1) Represents the mark-to-market gain on the derivative position.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**14. Fair Value Measurements – continued**

*Financial Assets and Liabilities Measured at Fair Value - continued*

Real Estate Fund Investments

At September 30, 2012, our Real Estate Fund had eight investments with an aggregate fair value of approximately \$482,442,000, or \$45,818,000 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 1.8 to 6.4 years. Cash flows are derived from property rental revenue (base rents plus reimbursements) less operating expenses, real estate taxes and capital and other costs, plus projected sales proceeds in the year of exit. Property rental revenue is based on leases currently in place and our estimates for future leasing activity, which are based on current market rents for similar space plus a projected growth factor. Similarly, estimated operating expenses and real estate taxes are based on amounts incurred in the current period plus a projected growth factor for future periods. Anticipated sales proceeds at the end of an investment's expected holding period are determined based on the net cash flow of the investment in the year of exit, divided by a terminal capitalization rate, less estimated selling costs.

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

value of these Fund investments at September 30, 2012.

| <b>Unobservable Quantitative Input</b> | <b>Range</b>   | <b>Weighted Average<br/>(based on fair value of<br/>investments)</b> |
|--|----------------|--|
| Discount rates                         | 12.5% to 23.3% | 14.6 %   |
| Terminal capitalization rates          | 5.3% to 6.8%   | 6.0 %  |

The above inputs are subject to change based on changes in economic and market conditions and/or changes in use or timing of exit. Changes in discount rates and terminal capitalization rates result in increases or decreases in the fair values of these investments. The discount rates encompass, among other things, uncertainties in the valuation models with respect to terminal capitalization rates and the amount and timing of cash flows. Therefore, a change in the fair value of these investments resulting from a change in the terminal capitalization rate, may be partially offset by a change in the discount rate. It is not possible for us to predict the effect of future economic or market conditions on our estimated fair values. The table below summarizes the changes in the fair value of Fund investments that are classified as Level 3, for the three and nine months ended September 30, 2012 and 2011.

| (Amounts in thousands) | <b>For the Three Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|------------------------|---|-------------|--|-------------|
|                        | <b>2012</b>   | <b>2011</b> | <b>2012</b>  | <b>2011</b> |
| Beginning balance      | \$ 388,455  | \$ 255,795  | \$ 346,650   | \$ 144,423  |
| Purchases              | 88,429  | -           | 163,021  | 123,047     |
| Sales/Returns          | -   | -           | (61,052)   | (12,831)    |
| Realized gains         | -   | -           | -  | 3,085       |
| Unrealized gains       | 5,558   | 5,639       | 33,537   | 19,209      |
| Other, net             | -   | (17)        | 286  | (15,516)    |
| Ending balance         | \$ 482,442  | \$ 261,417  | \$ 482,442   | \$ 261,417  |

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## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 14. Fair Value Measurements – continued

*Financial Assets and Liabilities Measured at Fair Value - 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 for the three and nine months ended September 30, 2012 and 2011.

| (Amounts in thousands)                 | For the Three Months<br>Ended September 30, |           | For the Nine Months<br>Ended September 30, |           |
|--|---|-----------|--|-----------|
|  | 2012  | 2011      | 2012                                       | 2011      |
| Beginning balance                      | \$ 58,313                                   | \$ 53,724 | \$ 56,221                                  | \$ 47,850 |
| Purchases                              | 1,650                                       | 3,155     | 5,416                                      | 22,259    |
| Sales                                  | (276)                                       | (1,044)   | (4,287)                                    | (18,538)  |
| Realized and unrealized gain<br>(loss) | 1,080                                       | (2,051)   | 3,349                                      | 2,166     |
| Other, net                             | -   | 103       | 68   | 150       |
| Ending balance                         | \$ 60,767                                   | \$ 53,887 | \$ 60,767                                  | \$ 53,887 |

*Financial Assets and Liabilities not Measured at Fair Value*

Financial assets and liabilities that are not measured at fair value in our consolidated financial statements include mezzanine loans receivable, a stock purchase warrant, 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 our mezzanine loans receivable and the stock purchase warrant are classified as Level 3 and the fair value of our secured and unsecured debt are classified as Level 2. The table below summarizes the carrying amounts and fair value of these financial instruments as of September 30, 2012 and December 31, 2011.

| (Amounts in thousands)                           | As of September 30, 2012 |              | As of December 31, 2011 |               |
|--|--------------------------|--------------|-------------------------|---------------|
|  | Carrying Amount          | Fair Value   | Carrying Amount         | Fair Value    |
| Assets:  |                          |              |                         |               |
| Mezzanine loans receivable                       | \$ 131,585               | \$ 127,000   | \$ 133,948              | \$ 129,000    |
| Stock purchase warrant<br>(residential property) | -                        | 35,000       | -                       | -             |
|  | \$ 131,585               | \$ 162,000   | \$ 133,948              | \$ 129,000    |
| Liabilities:                                     |                          |              |                         |               |
| Notes and mortgages payable                      | \$ 7,852,657             | \$ 7,900,000 | \$ 8,065,576            | \$ 8,181,000  |
| Senior unsecured notes                           | 1,357,921                | 1,476,000    | 1,357,661               | 1,426,000     |
| Revolving credit facility debt                   | 600,000                  | 600,000      | 138,000                 | 138,000       |
| Exchangeable senior debentures                   | -                        | -            | 497,898                 | 510,000       |
| Convertible senior debentures                    | -                        | -            | 10,168                  | 10,000        |
|  | \$ 9,810,578             | \$ 9,976,000 | \$ 10,069,303           | \$ 10,265,000 |

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**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**15. Incentive Compensation**

Our 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*.

On March 30, 2012, our Compensation Committee (the “Committee”) approved the 2012 formulaic annual incentive program for our senior executive management team. Under the program, our senior executive management team, including our Chairman and our President and Chief Executive Officer, will have the ability to earn annual incentive payments (cash or equity) if and only if we achieve comparable funds from operations (“Comparable FFO”) of at least 80% or more of the prior year Comparable FFO. Moreover, even if we achieve the stipulated Comparable FFO performance requirement, the Committee retains the right, consistent with best practices, to elect to make no payments under the program. Comparable FFO excludes the impact of certain non-recurring items such as income or loss from discontinued operations, the sale or mark-to-market of marketable securities or derivatives and early extinguishment of debt, restructuring costs and non-cash impairment losses, among others, and thus the Committee believes provides a better metric than total FFO for assessing management’s performance for the year. Aggregate incentive awards earned under the program are subject to a cap of 1.25% of Comparable FFO for the year, with individual award allocations determined by the Committee based on an assessment of individual and overall performance.

On March 30, 2012, the Committee also approved the 2012 Out-Performance Plan, a multi-year, performance-based equity compensation plan (the “2012 OPP”). The aggregate notional amount of the 2012 OPP is \$40,000,000. Under the 2012 OPP, participants, including our Chairman and our President and Chief Executive Officer, have the opportunity to earn compensation payable in the form of equity awards if and only if we outperform a predetermined total shareholder return (“TSR”) and/or outperform the market with respect to a relative TSR in any year during a three-year performance period. Specifically, awards under our 2012 OPP may be earned if we (i) achieve a TSR above that of the SNL US REIT Index (the “Index”) over a one-year, two-year or three-year performance period (the “Relative Component”), and/or (ii) achieve a TSR level greater than 7% per annum, or 21% over the three-year performance period (the “Absolute Component”). To the extent awards would be earned under the Absolute Component of the 2012 OPP but we underperform the Index, such awards would be reduced (and potentially fully negated) based on the degree to which we underperform the Index. In certain circumstances, in the event we outperform the Index but awards would not otherwise be earned under the Absolute Component, awards may still be earned 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 level, such awards 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. Dividends on awards issued accrue during the performance period and are paid to participants if and only if awards are ultimately earned based on the achievement of the designated performance objectives. Awards earned under the 2012 OPP vest 33% in year three, 33% in year four and 34% in year five. The fair value of the 2012 OPP on the date of grant, as adjusted for estimated forfeitures, was \$12,250,000, and is being amortized into expense over a five-year period from the date of grant, using a graded vesting attribution model.

Stock-based compensation expense consists of stock option awards, restricted stock awards, Operating Partnership unit awards and out-performance plan awards. Stock-based compensation expense was \$7,774,000 and \$7,320,000 in the three months ended September 30, 2012 and 2011, respectively, and \$22,821,000 and \$21,384,000 in the nine months ended September 30, 2012 and 2011, respectively.

**VORNADO REALTY TRUST****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****16. Fee and Other Income**

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

| (Amounts in thousands)      | <b>For the Three Months<br/>Ended September 30,</b> |             | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|-----------------------------|---|-------------|--|-------------|
|                             | <b>2012</b>   | <b>2011</b> | <b>2012</b>  | <b>2011</b> |
| BMS cleaning fees           | \$ 16,945   | \$ 15,647   | \$ 49,437  | \$ 46,479   |
| Signage revenue             | 4,783   | 5,085       | 14,252   | 14,746      |
| Management and leasing fees | 7,234   | 4,773       | 16,534   | 16,660      |
| Lease termination fees      | 282   | 4,803       | 1,172  | 12,478      |
| Other income                | 10,444  | 6,468       | 24,623   | 21,450      |
|                             | \$ 39,688   | \$ 36,776   | \$ 106,018   | \$ 111,813  |

Management and leasing fees include management fees from Interstate Properties, a related party, of \$197,000 and \$195,000 for the three months ended September 30, 2012 and 2011, respectively, and \$588,000 and \$586,000 for the nine months ended September 30, 2012 and 2011, respectively. The above table excludes fee income from partially owned entities, which is typically included in “income from partially owned entities” (see Note 7 – Investments in Partially Owned Entities).

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

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

| (Amounts in thousands)   | For the Three Months<br>Ended September 30, |             | For the Nine Months<br>Ended September 30, |             |
|--|---|-------------|--|-------------|
|  | 2012  | 2011        | 2012                                       | 2011        |
| Income (loss) from the mark-to-market of J.C. Penney derivative position       | \$ 4,344                                    | \$ (37,537) | \$ (53,343)                                | \$ (27,136) |
| Interest on mezzanine loans receivable   | 2,852                                       | 3,442       | 8,867                                      | 9,169       |
| Mark-to-market of investments in our deferred compensation plan <sup>(1)</sup> | 1,116                                       | (5,243)     | 5,267                                      | 1,502       |
| Dividends and interest on marketable securities                                | -   | 7,605       | 11,093                                     | 22,941      |
| Mezzanine loans loss reversal and net gain on disposition                      | -   | -           | -  | 82,744      |
| Other, net   | 2,211                                       | 1,722       | 5,132                                      | 5,866       |
|  | \$ 10,523                                   | \$ (30,011) | \$ (22,984)                                | \$ 95,086   |

(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.

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## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 18. Income Per Share

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

| (Amounts in thousands, except per share amounts)  | For the Three Months     |           | For the Nine Months      |            |
|---|--------------------------|-----------|--------------------------|------------|
|   | Ended September 30, 2012 | 2011      | Ended September 30, 2012 | 2011       |
| <b>Numerator:</b>   |                          |           |                          |            |
| Income from continuing operations, net of income attributable to noncontrolling interests   | \$ 93,433                | \$ 45,553 | \$ 303,755               | \$ 418,163 |
| Income from discontinued operations, net of income attributable to noncontrolling interests | 147,873                  | 8,209     | 227,370                  | 156,843    |
| Net income attributable to Vornado  | 241,306                  | 53,762    | 531,125                  | 575,006    |
| Preferred share dividends   | (20,613)                 | (17,627)  | (56,187)                 | (47,743)   |
| Discount on preferred unit redemptions  | 11,700                   | 5,000     | 11,700                   | 5,000      |
| Net income attributable to common shareholders  | 232,393                  | 41,135    | 486,638                  | 532,263    |
| Earnings allocated to unvested participating securities                                     | (71)                     | (48)      | (149)                    | (199)      |
| Numerator for basic income per share  | 232,322                  | 41,087    | 486,489                  | 532,064    |
| Impact of assumed conversions:  | 28                       | -         | 85                       | 94         |

|  |   |           |            |            |
|--|---|-----------|------------|------------|
| Convertible preferred share dividends              |   |           |            |            |
| Numerator for diluted income per share             | \$ 232,350  | \$ 41,087 | \$ 486,574 | \$ 532,158 |
| <b>Denominator:</b>                                |   |           |            |            |
| Denominator for basic income per share –           |   |           |            |            |
| weighted average shares                            | 185,924   | 184,398   | 185,656    | 184,220    |
| Effect of dilutive securities <sup>(1)</sup> :     |   |           |            |            |
| Employee stock options and restricted share awards | 681   | 1,667     | 693        | 1,764      |
| Convertible preferred shares                       | 50  | -         | 50         | 55         |
| Denominator for diluted income per share –         |   |           |            |            |
| weighted average shares and assumed conversions    | 186,655   | 186,065   | 186,399    | 186,039    |
| <b>INCOME PER COMMON SHARE – BASIC:</b>            |   |           |            |            |
| Income from continuing operations, net             | \$ 0.45   | \$ 0.18   | \$ 1.40    | \$ 2.04    |
| Income from discontinued operations, net           | 0.80  | 0.04      | 1.22       | 0.85       |
| Net income per common share                        | \$ 1.25   | \$ 0.22   | \$ 2.62    | \$ 2.89    |
| <b>INCOME PER COMMON SHARE – DILUTED:</b>          |   |           |            |            |
| Income from continuing operations, net             | \$ 0.45   | \$ 0.18   | \$ 1.39    | \$ 2.02    |
| Income from discontinued operations, net           | 0.79  | 0.04      | 1.22       | 0.84       |
| Net income per common share                        | \$ 1.24   | \$ 0.22   | \$ 2.61    | \$ 2.86    |
| <b>(1)</b>   | The effect of dilutive securities above excludes anti-dilutive weighted average common share equivalent of 12,652 and 18,857 in the three months ended September 30, 2012 and 2011, respectively, and 15,048 and 18,687 in the nine months ended September 30, 2012 and 2011, respectively. |           |            |            |



**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**19. 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*

Our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of September 30, 2012, the aggregate dollar amount of these guarantees and master leases is approximately \$267,090,000.

At September 30, 2012, \$22,576,000 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.

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.

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 September 30, 2012, our subsidiaries have funded \$1,100,000 of the commitment.

As of September 30, 2012, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$244,463,000.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**19. Commitments and Contingencies – continued**

*Litigation*

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, including the matter referred to below, is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

In 2003, Stop & Shop filed an action against us in the New York Supreme Court, claiming that we had no right to reallocate and therefore continue to collect \$5,000,000 of annual rent from Stop & Shop pursuant to a Master Agreement and Guaranty, because of the expiration of the leases to which the annual rent was previously allocated. Stop & Shop asserted that an order of the Bankruptcy Court for the Southern District of New York, as modified on appeal by the District Court, froze our right to reallocate and effectively terminated our right to collect the annual rent from Stop & Shop. We asserted a counterclaim seeking a judgment for all the unpaid annual rent accruing through the date of the judgment and a declaration that Stop & Shop will continue to be liable for the annual rent as long as any of the leases subject to the Master Agreement and Guaranty remain in effect. After summary judgment motions by both sides were denied, the parties conducted discovery. A trial was held in November 2010. On November 7, 2011, the Court determined that we have a continuing right to allocate the annual rent to unexpired leases covered by the Master Agreement and Guaranty, and directed entry of a judgment in our favor ordering Stop & Shop to pay us the unpaid annual rent accrued through February 28, 2011 in the amount of \$37,422,000, a portion of the annual rent due from March 1, 2011 through the date of judgment, interest, and attorneys' fees. On December 16, 2011, a money judgment based on the Court's decision was entered in our favor in the amount of \$56,597,000 (including interest and costs). The amount for attorneys' fees is being addressed in a proceeding before a special referee. Stop & Shop appealed the Court's decision and the judgment, and has posted a bond to secure payment of the judgment. On January 12, 2012, we commenced a new action against Stop & Shop seeking recovery of \$2,500,000 of annual rent not included in the money judgment, plus additional annual rent as it accrues. A motion by Stop & Shop to dismiss the new action was denied on July 19, 2012. Stop & Shop's appeal of that ruling was heard on October 18, 2012, and a decision has not yet been issued.

As of September 30, 2012, we have a \$46,400,000 receivable from Stop & Shop, excluding amounts due to us for interest and costs resulting from the Court's judgment. As a result of Stop & Shop appealing the Court's decision, we believe, after consultation with counsel, that the maximum reasonably possible loss is up to the total amount of the receivable of \$46,400,000.

## **20. Related Party Transactions**

On March 8, 2012, Steven Roth, the Chairman of our Board of Trustees, repaid his \$13,122,500 outstanding loan from the Company.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 21. Segment Information

Effective January 1, 2012, as a result of certain organizational and operational changes, we redefined the New York business segment to encompass all of our Manhattan assets by including the 1.0 million square feet in 21 freestanding Manhattan street retail assets (formerly in our Retail segment), and the Hotel Pennsylvania and our interest in Alexander's, Inc. (formerly in our Other segment). Accordingly, we have reclassified the prior period segment financial results to conform to the current year presentation. See note (4) on page 38 for the elements of the New York segment's EBITDA. Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> by segment for the three and nine months ended September 30, 2012 and 2011.

(Amounts in thousands)

|   | For the Three Months Ended September 30, 2012 |            |             |            |             |      |           |
|---|---|------------|-------------|------------|-------------|------|-----------|
|   | Total   | New York   | Washington, |            | Merchandise |      |           |
|   |   |            | DC          | Properties | Mart        | Toys | Other     |
| Property rentals                                  | \$ 492,989                                    | \$ 255,703 | \$ 115,641  | \$ 67,919  | \$ 31,625   | \$ - | \$ 22,101 |
| Straight-line rent adjustments                    | 11,910  | 8,140      | 1,267       | 2,392      | (171)       | -    | 282       |
| Amortization of acquired below-market leases, net | 13,242  | 8,458      | 506         | 2,868      | -           | -    | 1,410     |
| Total rentals                                     | 518,141                                       | 272,301    | 117,414     | 73,179     | 31,454      | -    | 23,793    |
| Tenant expense reimbursements                     | 80,497  | 45,164     | 9,601       | 21,069     | 1,201       | -    | 3,462     |
| Cleveland Medical Mart development project        | 72,651  | -          | -           | -          | 72,651      | -    | -         |
| Fee and other income:                             |   |            |             |            |             |      |           |
| BMS cleaning fees                                 | 16,945  | 23,918     | -           | -          | -           | -    | (6,973)   |
| Signage revenue                                   | 4,783   | 4,783      | -           | -          | -           | -    | -         |
| Management and leasing fees                       | 7,234   | 1,816      | 4,615       | 736        | 142         | -    | (75)      |
| Lease termination fees                            | 282   | 78         | 128         | 73         | 3           | -    | -         |

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|   |           |          |          |          |         |         |          |
|---|-----------|----------|----------|----------|---------|---------|----------|
| Other income  | 10,444    | 1,116    | 8,288    | 632      | 481     | -       | (73)     |
| Total revenues  | 710,977   | 349,176  | 140,046  | 95,689   | 105,932 | -       | 20,134   |
| Operating expenses  | 264,487   | 159,048  | 50,305   | 33,519   | 19,130  | -       | 2,485    |
| Depreciation and amortization   | 124,335   | 57,967   | 29,825   | 18,202   | 7,439   | -       | 10,902   |
| General and administrative  | 48,742    | 6,739    | 6,668    | 6,103    | 4,120   | -       | 25,112   |
| Cleveland Medical Mart development project  | 70,431    | -        | -        | -        | 70,431  | -       | -        |
| Acquisition related costs and tenant buy-outs   | 1,070     | -        | -        | -        | -       | -       | 1,070    |
| Total expenses  | 509,065   | 223,754  | 86,798   | 57,824   | 101,120 | -       | 39,569   |
| Operating income (loss)   | 201,912   | 125,422  | 53,248   | 37,865   | 4,812   | -       | (19,435) |
| (Loss) applicable to Toys   | (8,585)   | -        | -        | -        | -       | (8,585) | -        |
| Income (loss) from partially owned entities   | 21,268    | 9,309    | (2,182)  | 342      | 219     | -       | 13,580   |
| Income from Real Estate Fund  | 5,509     | -        | -        | -        | -       | -       | 5,509    |
| Interest and other investment income, net   | 10,523    | 1,057    | 24       | 4        | -       | -       | 9,438    |
| Interest and debt expense   | (120,770) | (36,817) | (28,311) | (14,732) | (7,906) | -       | (33,004) |
| Income (loss) before income taxes   | 109,857   | 98,971   | 22,779   | 23,479   | (2,875) | (8,585) | (23,912) |
| Income tax (expense) benefit  | (3,015)   | (815)    | 25       | -        | 2,166   | -       | (4,391)  |
| Income (loss) from continuing operations  | 106,842   | 98,156   | 22,804   | 23,479   | (709)   | (8,585) | (28,303) |
| Income from discontinued operations   | 157,314   | -        | 126,437  | 11,085   | 19,792  | -       | -        |
| Net income (loss)   | 264,156   | 98,156   | 149,241  | 34,564   | 19,083  | (8,585) | (28,303) |
| Less net (income) loss attributable to noncontrolling interests in: Consolidated subsidiaries | (6,610)   | (2,092)  | -        | 97       | -       | -       | (4,615)  |

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|   |                          |                           |           |                          |           |           |                          |
|---|--------------------------|---------------------------|-----------|--------------------------|-----------|-----------|--------------------------|
| Operating Partnership, including unit distributions | (16,240)                 | -                         | -         | -                        | -         | -         | (16,240)                 |
| Net income (loss) attributable to Vornado           | 241,306                  | 96,064                    | 149,241   | 34,661                   | 19,083    | (8,585)   | (49,158)                 |
| Interest and debt expense <sup>(2)</sup>            | 183,241                  | 46,823                    | 33,280    | 17,499                   | 8,916     | 34,526    | 42,197                   |
| Depreciation and amortization <sup>(2)</sup>        | 177,593                  | 62,905                    | 35,071    | 21,345                   | 7,662     | 33,160    | 17,450                   |
| Income tax expense (benefit) <sup>(2)</sup>         | 3,850                    | 871                       | (25)      | -                        | 9,281     | (11,118)  | 4,841                    |
| EBITDA <sup>(1)</sup>                               | 605,990                  | 206,663                   | 217,567   | 73,505                   | 44,942    | 47,983    | 15,330                   |
| Less EBITDA from discontinued operations            | (176,110) <sup>(3)</sup> | -                         | (128,745) | (15,160)                 | (32,205)  | -         | -                        |
| EBITDA from continuing operations                   | \$ 429,880               | \$ 206,663 <sup>(4)</sup> | \$ 88,822 | \$ 58,345 <sup>(5)</sup> | \$ 12,737 | \$ 47,983 | \$ 15,330 <sup>(6)</sup> |
| See notes on page 38.                               |                          |                           |           |                          |           |           |                          |

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 21. Segment Information – continued

(Amounts in thousands)

|   | For the Three Months Ended September 30, 2011 |            |             |            |           |      |           |
|---|---|------------|-------------|------------|-----------|------|-----------|
|   | Total   | New York   | Washington, |            | Retail    |      | Other     |
|   |   |            | DC          | Properties | Mart      | Toys |           |
| Property rentals                                  | \$ 507,258                                    | \$ 247,794 | \$ 133,659  | \$ 67,616  | \$ 35,586 | \$ - | \$ 22,603 |
| Straight-line rent adjustments                    | 7,087   | 6,445      | (1,308)     | 1,911      | (501)     | -    | 540       |
| Amortization of acquired below-market leases, net | 15,847  | 9,833      | 557         | 4,346      | -         | -    | 1,111     |
| Total rentals                                     | 530,192                                       | 264,072    | 132,908     | 73,873     | 35,085    | -    | 24,254    |
| Tenant expense reimbursements                     | 85,757  | 49,125     | 9,640       | 23,059     | 1,681     | -    | 2,252     |
| Cleveland Medical Mart development project        | 35,135  | -          | -           | -          | 35,135    | -    | -         |
| Fee and other income:                             |   |            |             |            |           |      |           |
| BMS cleaning fees                                 | 15,647  | 22,571     | -           | -          | -         | -    | (6,924)   |
| Signage revenue                                   | 5,085   | 5,085      | -           | -          | -         | -    | -         |
| Management and leasing fees                       | 4,773   | 1,022      | 2,670       | 755        | 45        | -    | 281       |
| Lease termination fees                            | 4,803   | 3,540      | 1,002       | 261        | -         | -    | -         |
| Other income                                      | 6,468   | 1,049      | 5,039       | 229        | 543       | -    | (392)     |
| Total revenues                                    | 687,860                                       | 346,464    | 151,259     | 98,177     | 72,489    | -    | 19,471    |
| Operating expenses                                | 262,837                                       | 152,880    | 49,013      | 37,415     | 21,289    | -    | 2,240     |
| Depreciation and amortization                     | 126,935                                       | 55,685     | 32,346      | 20,414     | 7,642     | -    | 10,848    |
|   | 46,121  | 6,452      | 6,502       | 6,088      | 9,206     | -    | 17,873    |



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|   |           |          |          |          |         |         |          |
|---|-----------|----------|----------|----------|---------|---------|----------|
| General and administrative  |           |          |          |          |         |         |          |
| Cleveland Medical Mart development project                          | 33,419    | -        | -        | -        | 33,419  | -       | -        |
| Acquisition related costs and tenant buy-outs                       | 2,288     | 1,558    | -        | 35       | -       | -       | 695      |
| Total expenses  | 471,600   | 216,575  | 87,861   | 63,952   | 71,556  | -       | 31,656   |
| Operating income (loss)   | 216,260   | 129,889  | 63,398   | 34,225   | 933     | -       | (12,185) |
| (Loss) applicable to Toys   | (9,304)   | -        | -        | -        | -       | (9,304) | -        |
| Income (loss) from partially owned entities                         | 13,140    | 1,203    | (1,356)  | 575      | 38      | -       | 12,680   |
| Income from Real Estate Fund  | 5,353     | -        | -        | -        | -       | -       | 5,353    |
| Interest and other investment (loss) income, net                    | (30,011)  | 1,047    | 39       | 1        | 1       | -       | (31,099) |
| Interest and debt expense   | (131,998) | (39,088) | (28,928) | (17,639) | (7,866) | -       | (38,477) |
| Net gain on disposition of wholly owned and partially owned assets  | 1,298     | -        | -        | -        | -       | -       | 1,298    |
| Income (loss) before income taxes                                   | 64,738    | 93,051   | 33,153   | 17,162   | (6,894) | (9,304) | (62,430) |
| Income tax expense  | (6,959)   | (678)    | (881)    | -        | (784)   | -       | (4,616)  |
| Income (loss) from continuing operations                            | 57,779    | 92,373   | 32,272   | 17,162   | (7,678) | (9,304) | (67,046) |
| Income (loss) from discontinued operations                          | 8,444     | 165      | 1,622    | 6,272    | 483     | -       | (98)     |
| Net income (loss)   | 66,223    | 92,538   | 33,894   | 23,434   | (7,195) | (9,304) | (67,144) |
| Less net (income) loss attributable to noncontrolling interests in: |           |          |          |          |         |         |          |
| Consolidated subsidiaries   | (5,636)   | (2,219)  | -        | 110      | -       | -       | (3,527)  |
| Operating Partnership,  |           |          |          |          |         |         |          |

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|  |                         |                           |            |                          |          |           |                           |
|--|-------------------------|---------------------------|------------|--------------------------|----------|-----------|---------------------------|
| including unit distributions                 | (6,825)                 | -                         | -          | -                        | -        | -         | (6,825)                   |
| Net income (loss) attributable to            |                         |                           |            |                          |          |           |                           |
| Vornado                                      | 53,762                  | 90,319                    | 33,894     | 23,544                   | (7,195)  | (9,304)   | (77,496)                  |
| Interest and debt expense <sup>(2)</sup>     | 197,864                 | 46,691                    | 33,703     | 20,678                   | 9,523    | 38,018    | 49,251                    |
| Depreciation and amortization <sup>(2)</sup> | 193,394                 | 65,539                    | 38,085     | 24,117                   | 12,230   | 34,293    | 19,130                    |
| Income tax (benefit) expense <sup>(2)</sup>  | (7,350)                 | 734                       | 925        | -                        | 890      | (15,135)  | 5,236                     |
| EBITDA <sup>(1)</sup>                        | 437,670                 | 203,283                   | 106,607    | 68,339                   | 15,448   | 47,872    | (3,879)                   |
| Less EBITDA from discontinued operations     | (22,597) <sup>(3)</sup> | (276)                     | (4,568)    | (11,288)                 | (6,563)  | -         | 98                        |
| EBITDA from continuing operations            | \$ 415,073              | \$ 203,007 <sup>(4)</sup> | \$ 102,039 | \$ 57,051 <sup>(5)</sup> | \$ 8,885 | \$ 47,872 | \$ (3,781) <sup>(6)</sup> |
| See notes on page 38.                        |                         |                           |            |                          |          |           |                           |

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 21. Segment Information – continued

(Amounts in thousands)

|   | For the Nine Months Ended September 30, 2012 |            |                   |                      |                     |      |           |
|---|--|------------|-------------------|----------------------|---------------------|------|-----------|
|   | Total  | New York   | Washington,<br>DC | Retail<br>Properties | Merchandise<br>Mart | Toys | Other     |
| Property rentals                                  | \$ 1,469,751                                 | \$ 735,587 | \$ 356,459        | \$ 203,237           | \$ 107,687          | \$ - | \$ 66,781 |
| Straight-line rent adjustments                    | 55,189                                       | 42,334     | 4,382             | 7,285                | 580                 | -    | 608       |
| Amortization of acquired below-market leases, net | 39,228                                       | 23,776     | 1,537             | 9,648                | -                   | -    | 4,267     |
| Total rentals                                     | 1,564,168                                    | 801,697    | 362,378           | 220,170              | 108,267             | -    | 71,656    |
| Tenant expense reimbursements                     | 224,287                                      | 118,861    | 30,471            | 64,915               | 3,702               | -    | 6,338     |
| Cleveland Medical Mart development project        | 184,014                                      | -          | -                 | -                    | 184,014             | -    | -         |
| Fee and other income:                             |  |            |                   |                      |                     |      |           |
| BMS cleaning fees                                 | 49,437                                       | 70,476     | -                 | -                    | -                   | -    | (21,039)  |
| Signage revenue                                   | 14,252                                       | 14,252     | -                 | -                    | -                   | -    | -         |
| Management and leasing fees                       | 16,534                                       | 4,037      | 9,782             | 2,640                | 188                 | -    | (113)     |
| Lease termination fees                            | 1,172  | 334        | 256               | 74                   | 508                 | -    | -         |
| Other income                                      | 24,623                                       | 3,449      | 18,846            | 1,361                | 1,221               | -    | (254)     |
| Total revenues                                    | 2,078,487                                    | 1,013,106  | 421,733           | 289,160              | 297,900             | -    | 56,588    |
| Operating expenses                                | 764,018                                      | 447,910    | 143,923           | 104,788              | 59,929              | -    | 7,468     |

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|  |           |           |          |          |          |        |           |
|--|-----------|-----------|----------|----------|----------|--------|-----------|
| Depreciation and amortization                                      | 386,974   | 168,391   | 107,395  | 56,830   | 22,324   | -      | 32,034    |
| General and administrative   | 151,142   | 21,980    | 19,849   | 18,803   | 14,877   | -      | 75,633    |
| Cleveland Medical Mart development project                         | 177,127   | -         | -        | -        | 177,127  | -      | -         |
| Acquisition related costs and tenant buy-outs                      | 4,314     | -         | -        | -        | -        | -      | 4,314     |
| Total expenses   | 1,483,575 | 638,281   | 271,167  | 180,421  | 274,257  | -      | 119,449   |
| Operating income (loss)  | 594,912   | 374,825   | 150,566  | 108,739  | 23,643   | -      | (62,861)  |
| Income applicable to Toys  | 88,696    | -         | -        | -        | -        | 88,696 | -         |
| Income (loss) from partially owned entities                        | 53,491    | 20,345    | (4,571)  | 1,040    | 560      | -      | 36,117    |
| Income from Real Estate Fund                                       | 37,572    | -         | -        | -        | -        | -      | 37,572    |
| Interest and other investment (loss) income, net                   | (22,984)  | 3,166     | 97       | 24       | -        | -      | (26,271)  |
| Interest and debt expense  | (377,600) | (109,365) | (85,408) | (49,705) | (23,467) | -      | (109,655) |
| Net gain on disposition of wholly owned and partially owned assets | 4,856     | -         | -        | -        | -        | -      | 4,856     |
| Income (loss) before income taxes                                  | 378,943   | 288,971   | 60,684   | 60,098   | 736      | 88,696 | (120,242) |
| Income tax (expense) benefit                                       | (17,319)  | (2,480)   | (1,277)  | -        | 343      | -      | (13,905)  |
| Income (loss) from continuing operations                           | 361,624   | 286,491   | 59,407   | 60,098   | 1,079    | 88,696 | (134,147) |
| Income (loss) from   |           |           |          |          |          |        |           |

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|   |                          |                           |            |                           |           |            |                         |
|---|--------------------------|---------------------------|------------|---------------------------|-----------|------------|-------------------------|
| discontinued operations   | 241,024                  | (640)                     | 130,979    | 36,404                    | 67,291    | -          | 6,990                   |
| Net income (loss)   | 602,648                  | 285,851                   | 190,386    | 96,502                    | 68,370    | 88,696     | (127,157)               |
| Less net (income) loss attributable to noncontrolling interests in: |                          |                           |            |                           |           |            |                         |
| Consolidated subsidiaries   | (30,928)                 | (7,266)                   | -          | 308                       | -         | -          | (23,970)                |
| Operating Partnership, including unit distributions                 | (40,595)                 | -                         | -          | -                         | -         | -          | (40,595)                |
| Net income (loss) attributable to Vornado                           | 531,125                  | 278,585                   | 190,386    | 96,810                    | 68,370    | 88,696     | (191,722)               |
| Interest and debt expense <sup>(2)</sup>                            | 567,265                  | 140,294                   | 99,486     | 58,039                    | 26,492    | 103,388    | 139,566                 |
| Depreciation and amortization <sup>(2)</sup>                        | 552,794                  | 188,480                   | 122,987    | 65,751                    | 26,966    | 100,371    | 48,239                  |
| Income tax expense <sup>(2)</sup>                                   | 50,076                   | 2,677                     | 1,532      | -                         | 11,658    | 17,982     | 16,227                  |
| EBITDA <sup>(1)</sup>   | 1,701,260                | 610,036                   | 414,391    | 220,600                   | 133,486   | 310,437    | 12,310                  |
| Less EBITDA from discontinued operations                            | (279,464) <sup>(3)</sup> | 640                       | (138,707)  | (48,251)                  | (86,156)  | -          | (6,990)                 |
| EBITDA from continuing operations                                   | \$ 1,421,796             | \$ 610,676 <sup>(4)</sup> | \$ 275,684 | \$ 172,349 <sup>(5)</sup> | \$ 47,330 | \$ 310,437 | \$ 5,320 <sup>(6)</sup> |
| See notes on page 38.   |                          |                           |            |                           |           |            |                         |

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 21. Segment Information – continued

(Amounts in thousands)

|   | For the Nine Months Ended September 30, 2011 |            |                   |                      |                     |      |           |
|---|--|------------|-------------------|----------------------|---------------------|------|-----------|
|   | Total  | New York   | Washington,<br>DC | Retail<br>Properties | Merchandise<br>Mart | Toys | Other     |
| Property rentals                                  | \$ 1,517,994                                 | \$ 727,886 | \$ 400,909        | \$ 202,701           | \$ 118,540          | \$ - | \$ 67,958 |
| Straight-line rent adjustments                    | 26,192                                       | 22,636     | (2,138)           | 4,666                | (1,261)             | -    | 2,289     |
| Amortization of acquired below-market leases, net | 48,681                                       | 33,173     | 1,597             | 10,552               | -                   | -    | 3,359     |
| Total rentals                                     | 1,592,867                                    | 783,695    | 400,368           | 217,919              | 117,279             | -    | 73,606    |
| Tenant expense reimbursements                     | 237,945                                      | 125,921    | 27,242            | 71,926               | 4,988               | -    | 7,868     |
| Cleveland Medical Mart development project        | 108,203                                      | -          | -                 | -                    | 108,203             | -    | -         |
| Fee and other income:                             |  |            |                   |                      |                     |      |           |
| BMS cleaning fees                                 | 46,479                                       | 66,913     | -                 | -                    | -                   | -    | (20,434)  |
| Signage revenue                                   | 14,746                                       | 14,746     | -                 | -                    | -                   | -    | -         |
| Management and leasing fees                       | 16,660                                       | 3,560      | 9,629             | 3,068                | 348                 | -    | 55        |
| Lease termination fees                            | 12,478                                       | 9,176      | 3,013             | 289                  | -                   | -    | -         |
| Other income                                      | 21,450                                       | 3,391      | 15,316            | 1,172                | 1,791               | -    | (220)     |
| Total revenues                                    | 2,050,828                                    | 1,007,402  | 455,568           | 294,374              | 232,609             | -    | 60,875    |
| Operating expenses                                | 773,331                                      | 435,519    | 142,211           | 113,167              | 71,210              | -    | 11,224    |

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|  |           |           |          |          |          |        |           |
|--|-----------|-----------|----------|----------|----------|--------|-----------|
| Depreciation and amortization                                      | 373,380   | 165,031   | 96,940   | 57,472   | 21,594   | -      | 32,343    |
| General and administrative   | 154,359   | 20,409    | 19,496   | 20,046   | 22,659   | -      | 71,749    |
| Cleveland Medical Mart development project                         | 101,637   | -         | -        | -        | 101,637  | -      | -         |
| Acquisition related costs and tenant buy-outs                      | 22,455    | 16,558    | -        | 35       | 3,040    | -      | 2,822     |
| Total expenses   | 1,425,162 | 637,517   | 258,647  | 190,720  | 220,140  | -      | 118,138   |
| Operating income (loss)  | 625,666   | 369,885   | 196,921  | 103,654  | 12,469   | -      | (57,263)  |
| Income applicable to Toys  | 80,794    | -         | -        | -        | -        | 80,794 | -         |
| Income (loss) from partially owned entities                        | 55,035    | 13,320    | (6,038)  | 1,221    | 292      | -      | 46,240    |
| Income from Real Estate Fund                                       | 25,491    | -         | -        | -        | -        | -      | 25,491    |
| Interest and other investment income, net                          | 95,086    | 3,169     | 119      | 1        | 1        | -      | 91,796    |
| Interest and debt expense  | (394,192) | (114,381) | (85,971) | (53,024) | (23,342) | -      | (117,474) |
| Net gain on disposition of wholly owned and partially owned assets | 7,975     | -         | -        | -        | -        | -      | 7,975     |
| Income (loss) before income taxes                                  | 495,855   | 271,993   | 105,031  | 51,852   | (10,580) | 80,794 | (3,235)   |
| Income tax expense   | (18,548)  | (1,637)   | (2,055)  | (5)      | (1,523)  | -      | (13,328)  |
| Income (loss) from continuing operations                           | 477,307   | 270,356   | 102,976  | 51,847   | (12,103) | 80,794 | (16,563)  |
| Income (loss) from discontinued operations                         | 165,706   | 398       | 51,274   | 26,010   | 88,365   | -      | (341)     |
|  | 643,013   | 270,754   | 154,250  | 77,857   | 76,262   | 80,794 | (16,904)  |

|   |                          |                           |            |                           |           |            |                           |
|---|--------------------------|---------------------------|------------|---------------------------|-----------|------------|---------------------------|
| Net income<br>(loss)  |                          |                           |            |                           |           |            |                           |
| Less net<br>(income) loss<br>attributable to<br>noncontrolling<br>interests in: |                          |                           |            |                           |           |            |                           |
| Consolidated<br>subsidiaries  | (20,643)                 | (6,815)                   | -          | 196                       | -         | -          | (14,024)                  |
| Operating<br>Partnership,<br>including<br>unit<br>distributions                 | (47,364)                 | -                         | -          | -                         | -         | -          | (47,364)                  |
| Net income<br>(loss)<br>attributable to   |                          |                           |            |                           |           |            |                           |
| Vornado   | 575,006                  | 263,939                   | 154,250    | 78,053                    | 76,262    | 80,794     | (78,292)                  |
| Interest and<br>debt expense <sup>(2)</sup>                                     | 599,668                  | 132,248                   | 100,017    | 62,144                    | 32,025    | 121,546    | 151,688                   |
| Depreciation<br>and<br>amortization <sup>(2)</sup>                              | 561,738                  | 181,611                   | 118,290    | 68,294                    | 34,632    | 101,862    | 57,049                    |
| Income tax<br>expense <sup>(2)</sup>  | 42,135                   | 1,644                     | 2,380      | 5                         | 2,211     | 29,914     | 5,981                     |
| EBITDA <sup>(1)</sup>   | 1,778,547                | 579,442                   | 374,937    | 208,496                   | 145,130   | 334,116    | 136,426                   |
| Less EBITDA<br>from discontinued<br>operations                                  | (211,539) <sup>(3)</sup> | (710)                     | (60,220)   | (40,988)                  | (109,962) | -          | 341                       |
| EBITDA from<br>continuing<br>operations   | \$ 1,567,008             | \$ 578,732 <sup>(4)</sup> | \$ 314,717 | \$ 167,508 <sup>(5)</sup> | \$ 35,168 | \$ 334,116 | \$ 136,767 <sup>(6)</sup> |
| See notes on<br>the following<br>page.  |                          |                           |            |                           |           |            |                           |



## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 21. 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 following table reconciles income from discontinued operations to EBITDA from discontinued operations.

| (Amounts in thousands)              | For the Three Months<br>Ended September 30, |           | For the Nine Months<br>Ended September 30, |            |
|-------------------------------------|---|-----------|--|------------|
|                                     | 2012  | 2011      | 2012                                       | 2011       |
| Income from discontinued operations | \$ 157,314                                  | \$ 8,444  | \$ 241,024                                 | \$ 165,706 |
| Interest and debt expense           | 3,799                                       | 4,732     | 11,415                                     | 17,917     |
| Depreciation and amortization       | 3,560                                       | 9,236     | 14,818                                     | 26,916     |
| Income taxes                        | 11,437                                      | 185       | 12,207                                     | 1,000      |
| EBITDA from discontinued operations | \$ 176,110                                  | \$ 22,597 | \$ 279,464                                 | \$ 211,539 |

- (4) The elements of "New York" EBITDA from continuing operations are summarized below.

| (Amounts in thousands) | For the Three Months<br>Ended September 30, |            | For the Nine Months<br>Ended September 30, |             |
|------------------------|---|------------|--|-------------|
|                        | 2012  | 2011       | 2012                                       | 2011        |
| Office                 | \$ 139,894                                  | \$ 137,295 | \$ 419,054                                 | \$ 399,182  |
| Retail                 | 46,165                                      | 43,109     | 135,399                                    | 121,136 (a) |
| Alexander's            | 13,080                                      | 12,830     | 39,477                                     | 40,032      |
| Hotel Pennsylvania     | 7,524                                       | 9,773      | 16,746                                     | 18,382      |
| Total New York         | \$ 206,663                                  | \$ 203,007 | \$ 610,676                                 | \$ 578,732  |

- (a) The EBITDA for the nine months ended September 30, 2011 is after a \$16,558 expense for the buy-out of below-market leases.

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

| (Amounts in thousands) | For the Three Months<br>Ended September 30, |           | For the Nine Months<br>Ended September 30, |            |
|------------------------|---|-----------|--|------------|
|                        | 2012  | 2011      | 2012                                       | 2011       |
| Strip shopping centers | \$ 42,468                                   | \$ 41,282 | \$ 125,072                                 | \$ 120,887 |

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|                         |           |           |            |            |
|-------------------------|-----------|-----------|------------|------------|
| Regional malls          | 15,877    | 15,769    | 47,277     | 46,621     |
| Total Retail properties | \$ 58,345 | \$ 57,051 | \$ 172,349 | \$ 167,508 |

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## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

## 21. Segment Information - continued

## Notes to preceding tabular information - continued:

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

| (Amounts in thousands)   | For the Three Months<br>Ended September 30, |          | For the Nine Months<br>Ended September 30, |          |
|--|---|----------|--|----------|
|  | 2012  | 2011     | 2012                                       | 2011     |
| Our share of Real Estate Fund:   |   |          |  |          |
| Income before net<br>realized/unrealized gains                                 | \$ 1,874                                    | \$ 743   | \$ 4,162                                   | \$ 2,550 |
| Net unrealized gains   | 1,389                                       | 1,410    | 8,384                                      | 4,802    |
| Net realized gains   | -   | -        | -  | 771      |
| Carried interest   | (2,541)                                     | (475)    | -  | 1,665    |
| Total  | 722   | 1,678    | 12,546                                     | 9,788    |
| LNR  | 18,773                                      | 15,769   | 46,006                                     | 38,569   |
| 555 California Street  | 10,714                                      | 11,220   | 31,406                                     | 32,608   |
| Lexington  | 7,859                                       | 8,424    | 24,780                                     | 27,970   |
| Other investments  | 11,121                                      | 10,173   | 24,954                                     | 30,352   |
|  | 49,189                                      | 47,264   | 139,692                                    | 139,287  |
| Corporate general and administrative<br>expenses <sup>(a)</sup>                | (22,811)                                    | (21,585) | (66,940)                                   | (62,964) |
| Investment income and other, net <sup>(a)</sup>                                | 5,033                                       | 12,541   | 28,865                                     | 37,284   |
| Fee income from Alexander's  | 1,821                                       | 1,758    | 5,617                                      | 5,545    |
| Income (loss) from the mark-to-market of J.C.<br>Penney derivative<br>position | 4,344                                       | (37,537) | (53,343)                                   | (27,136) |
| Verde Realty impairment loss   | (4,936)                                     | -        | (4,936)                                    | -        |
| Acquisition costs  | (1,070)                                     | (695)    | (4,314)                                    | (2,822)  |
| Net gain on sale of residential<br>condominiums                                | -   | 1,298    | 1,274                                      | 5,884    |
| Mezzanine loans loss reversal and net gain<br>on disposition                   | -   | -        | -  | 82,744   |
| Net gain resulting from Lexington's stock<br>issuance                          | -   | -        | -  | 9,760    |
| Real Estate Fund placement fees  | -   | -        | -  | (3,451)  |
| Net income attributable to noncontrolling<br>interests in the                  | (16,240)                                    | (6,825)  | (40,595)                                   | (47,364) |

Operating Partnership, including  
unit distributions

\$ 15,330      \$ (3,781)      \$ 5,320      \$ 136,767

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

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Shareholders and Board of Trustees

Vornado Realty Trust

New York, New York

We have reviewed the accompanying consolidated balance sheet of Vornado Realty Trust (the “Company”) as of September 30, 2012, and the related consolidated statements of income and comprehensive income for the three-month and nine-month periods ended September 30, 2012 and 2011, and of changes in equity and cash flows for the nine-month periods ended September 30, 2012 and 2011. 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, 2011, 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 27, 2012, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph relating to the change in method of presenting comprehensive income due to the adoption of FASB Accounting Standards Update No. 2011-05, *Presentation of Comprehensive Income*. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2011 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

November 1, 2012

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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, 2011. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

Management's Discussion and Analysis of Financial Condition and Results of Operations includes a discussion of our consolidated financial statements for the three and nine months ended September 30, 2012. 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.

## 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 SNL REIT Index (“SNL”) for the following periods ended September 30, 2012.

|            | <b>Total Return<sup>(1)</sup></b> |            |            |
|------------|-----------------------------------|------------|------------|
|            | <b>Vornado</b>                    | <b>RMS</b> | <b>SNL</b> |
| One-year   | 12.3%                             | 32.4%      | 34.6%      |
| Three-year | 38.7%                             | 75.1%      | 78.7%      |
| Five-year  | (12.1%)                           | 11.1%      | 16.4%      |
| Ten-year   | 212.5%                            | 192.3%     | 209.7%     |

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

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

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

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



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

**Overview – continued**Quarter Ended September 30, 2012 Financial Results Summary

Net income attributable to common shareholders for the quarter ended September 30, 2012 was \$232,393,000, or \$1.24 per diluted share, compared to \$41,135,000, or \$0.22 per diluted share for the quarter ended September 30, 2011. Net income for the quarters ended September 30, 2012 and 2011 include \$132,244,000 and \$3,591,000, respectively, of net gains on sale of real estate. In addition, the quarters ended September 30, 2012 and 2011 include certain other items that affect comparability, which are listed in the table below. The aggregate of net gains on sale of real estate and the items in the table below, net of amounts attributable to noncontrolling interests, increased net income attributable to common shareholders for the quarter ended September 30, 2012 by \$159,126,000, or \$0.85 per diluted share and decreased net income attributable to common shareholders for the quarter ended September 30, 2011 by \$20,238,000, or \$0.11 per diluted share.

Funds From Operations attributable to common shareholders plus assumed conversions (“FFO”) for the quarter ended September 30, 2012 was \$251,019,000, or \$1.34 per diluted share, compared to \$195,125,000, or \$1.05 per diluted share for the prior year’s quarter. FFO for the quarters ended September 30, 2012 and 2011 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, increased FFO for the quarter ended September 30, 2012 by \$38,781,000, or \$0.20 per diluted share and decreased FFO for the quarter ended September 30, 2011 by \$14,620,000, or \$0.08 per diluted share.

| (Amounts in thousands)   | <b>For the Three Months Ended September</b> |                     |
|--|---|---------------------|
|  | <b>2012</b>                                 | <b>30,<br/>2011</b> |
| <b>Items that affect comparability income (expense):</b>                       |   |                     |
| After-tax net gain on sale of Canadian Trade Shows                             | \$ 19,657                                   | \$ -                |
| FFO attributable to discontinued operations, including discontinued operations |   |                     |
| of a partially owned entity  | 12,649                                      | 19,825              |
| Discount on preferred unit redemptions   | 11,700                                      | 5,000               |
| Income (loss) from the mark-to-market of J.C. Penney derivative position       | 4,344                                       | (37,537)            |
| Net gain on sale of residential condominiums                                   | -   | 1,298               |
| Verde Realty impairment loss   | (4,936)                                     | -                   |
| Buy-out of a below-market lease  | -   | (1,593)             |
| Other, net   | (2,084)                                     | (2,626)             |

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|  |           |             |
|--|-----------|-------------|
|  | 41,330    | (15,633)    |
| Noncontrolling interests' share of above adjustments | (2,549)   | 1,013       |
| Items that affect comparability, net                 | \$ 38,781 | \$ (14,620) |

The percentage increase (decrease) in GAAP basis and Cash basis same store Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) of our operating segments for the quarter ended September 30, 2012 over the quarter ended September 30, 2011 and the trailing quarter ended June 30, 2012 are summarized below.

|  |   | Washington,<br>DC | Retail<br>Properties | Merchandise<br>Mart |
|--|---|-------------------|----------------------|---------------------|
| <b>Same Store EBITDA:</b>                    | <b>New York</b>   |                   |                      |                     |
| September 30, 2012 vs.<br>September 30, 2011 |   |                   |                      |                     |
| GAAP basis                                   | 0.3%(1)   | (6.9%)            | 0.1%                 | (0.9%)              |
| Cash basis                                   | 0.7%(1)   | (9.2%)            | 2.5%                 | (2.7%)              |
| September 30, 2012 vs. June<br>30, 2012      |   |                   |                      |                     |
| GAAP basis                                   | (2.2%)(2)   | (2.2%)            | 0.1%                 | (24.2%)             |
| Cash basis                                   | 0.6%(2)   | (2.3%)            | 1.0%                 | (23.1%)             |
| (1)  | Excluding the Hotel Pennsylvania, same store increased by 1.3% and 1.9% on a GAAP and Cash basis, respectively.         |                   |                      |                     |
| (2)  | Excluding the Hotel Pennsylvania, same store decreased by (1.3%) on a GAAP basis and increased by 1.8% on a Cash basis. |                   |                      |                     |

**Overview – continued***Nine Months Ended September 30, 2012 Financial Results Summary*

Net income attributable to common shareholders for the nine months ended September 30, 2012 was \$486,638,000, or \$2.61 per diluted share, compared to \$532,263,000, or \$2.86 per diluted share for the nine months ended September 30, 2011. Net income for the nine months ended September 30, 2012 and 2011 include \$205,852,000 and \$59,474,000, respectively, of net gains on sale of real estate and \$23,754,000 of real estate impairment losses in the nine months ended September 30, 2012. In addition, the nine months ended September 30, 2012 and 2011 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 \$179,124,000, or \$0.96 per diluted share for the nine months ended September 30, 2012 and \$233,998,000, or \$1.26 per diluted share for the nine months ended September 30, 2011.

FFO for the nine months ended September 30, 2012 was \$767,347,000, or \$4.07 per diluted share, compared to \$951,054,000, or \$4.96 per diluted share for the nine months ended September 30, 2011. FFO for the nine months ended September 30, 2012 and 2011 includes certain items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO by \$22,909,000, or \$0.12 per diluted share for the nine months ended September 30, 2012 and \$204,971,000, or \$1.07 per diluted share for the nine months ended September 30, 2011.

| (Amounts in thousands)  | <b>For the Nine Months Ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2012</b>  | <b>2011</b> |
| <b>Items that affect comparability income (expense):</b>                          |  |             |
| FFO attributable to discontinued operations, including discontinued operations of |  |             |
| a partially owned entity  | \$ 52,768  | \$ 63,785   |
| After-tax net gain on sale of Canadian Trade Shows                                | 19,657   | -           |
| Discount on preferred unit redemptions  | 11,700   | 7,000       |
| Net gain on sale of residential condominiums                                      | 1,274  | 5,884       |
| Net gain on extinguishment of debt  | -  | 83,907      |
| Mezzanine loans loss reversal and net gain on disposition                         | -  | 82,744      |
| Our share of LNR's asset sales and tax settlement gains                           | -  | 14,997      |
| Net gain resulting from Lexington's stock issuances                               | -  | 9,760       |

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|   |           |            |
|---|-----------|------------|
| Loss from the mark-to-market of J.C. Penney derivative position | (53,343)  | (27,136)   |
| Verde Realty impairment loss                                    | (4,936)   | -          |
| Buy-out of below-market leases                                  | -         | (16,593)   |
| Other, net  | (2,704)   | (5,604)    |
|   | 24,416    | 218,744    |
| Noncontrolling interests' share of above adjustments            | (1,507)   | (13,773)   |
| Items that affect comparability, net                            | \$ 22,909 | \$ 204,971 |

The percentage increase (decrease) in GAAP basis and Cash basis same store EBITDA of our operating segments for the nine months ended September 30, 2012 over the nine months ended September 30, 2011 is summarized below.

|   | New York | Washington, DC | Retail Properties | Merchandise Mart |
|---|----------|----------------|-------------------|------------------|
| <b>Same Store EBITDA:</b>   |          |                |                   |                  |
| September 30, 2012 vs. September 30, 2011   |          |                |                   |                  |
| GAAP basis  | 2.3%(1)  | (7.0%)         | (0.6%)            | 2.8%             |
| Cash basis  | 1.5%(1)  | (6.0%)         | (0.5%)            | (0.3%)           |
| (1) Excluding the Hotel Pennsylvania, same store increased by 2.6% and 1.7% 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

### 2012 Acquisitions

On July 5, 2012, we entered into an agreement to acquire a retail condominium located at 666 Fifth Avenue at 53rd Street for \$707,000,000. The property has 126 feet of frontage on Fifth Avenue and contains 114,000 square feet, 39,000 square feet in fee and 75,000 square feet by long-term lease from the 666 Fifth Avenue office condominium, which is 49.5% owned by Vornado. The acquisition will be funded with proceeds from asset sales and property level debt and is expected to close in the fourth quarter, subject to customary closing conditions.

On July 30, 2012, we entered into a lease with Host Hotels & Resorts, Inc. (NYSE: HST) (“Host”), under which we will redevelop the retail and signage components of the Marriott Marquis Times Square Hotel. The Marriott Marquis with over 1,900 rooms is one of the largest hotels in Manhattan. It is located in the heart of the bow-tie of Times Square and spans the entire block front from 45th Street to 46th Street on Broadway. The Marriott Marquis is directly across from our 1540 Broadway iconic retail property leased to Forever 21 and Disney flagship stores. We plan to spend as much as \$140,000,000 to redevelop and substantially expand the existing retail space, including converting the below grade parking garage into retail, and creating six-story, 300 foot wide block front, dynamic LED signs. During the term of the lease we will pay fixed rent equal to the sum of \$12,500,000 plus a portion of the property’s net cash flow, after we receive a 5.2% preferred return on our invested capital. The lease contains put/call options which, if exercised, would lead to our ownership. Host can exercise the put option during defined periods following the conversion of the project to a condominium. We can exercise our call option under the same terms, at any time after the fifteenth year of the lease term.

On April 26, 2012, our 25% owned Real Estate Fund acquired 520 Broadway, a 112,000 square foot office building in Santa Monica, California for \$59,650,000 and subsequently placed a \$30,000,000 mortgage loan on the property. The three-year loan bears interest at LIBOR plus 2.25% and has two one-year extension options.

On July 2, 2012, our 25% owned Real Estate Fund acquired 1100 Lincoln Road, a 167,000 square foot retail property, the western anchor of the Lincoln Road Shopping District in Miami Beach, Florida, for \$132,000,000. The purchase price consisted of \$66,000,000 in cash and a \$66,000,000 mortgage loan. The three-year loan bears interest at LIBOR plus 2.75% and has two one-year extension options.

On August 20, 2012, our 25% owned Real Estate Fund acquired 501 Broadway, a 9,000 square foot retail property in New York for \$31,000,000. The purchase price consisted of \$11,000,000 in cash and a \$20,000,000 mortgage loan. The three-year loan bears interest at LIBOR plus 2.75% with a floor of 3.50%, and has two one-year extension options.

**Overview – continued**

**2012 Dispositions**

During 2012, we sold or have entered into agreements to sell (i) five Mart properties, (ii) four Washington, DC properties, and (iii) 13 non-core strip shopping centers and the Green Acres Mall, for an aggregate of \$1,500,000,000. Below are the details of these transactions.

*Merchandise Mart Properties*

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.

On June 22, 2012, we completed the sale of L.A. Mart, a 784,000 square foot showroom building in Los Angeles, California, for \$53,000,000, of which \$18,000,000 was cash and \$35,000,000 was nine-month seller financing at 6.0%.

On July 5, 2012, we entered into agreements to sell the Washington Design Center, the Boston Design Center and the Canadian Trade Shows, for an aggregate of \$175,000,000 in cash. The sales of the Canadian Trade Shows and the Washington Design Center were completed in July 2012 and the sale of the Canadian Trade Shows resulted in an after-tax net gain of \$19,657,000. The sale of the Boston Design Center will result in a net gain of approximately \$5,300,000 and is expected to be completed in the fourth quarter, subject to customary closing conditions.

*Washington, DC Properties*

On July 26, 2012, we completed the sale of 409 Third Street S.W., a 409,000 square foot office building in Washington, DC, for \$200,000,000 in cash, which resulted in a net gain of \$126,621,000. This building is contiguous to the Washington Design Center and was sold to the same purchaser.



On October 26, 2012, we entered into an agreement to sell three office buildings (“Reston Executive”) located in suburban Fairfax County, Virginia, containing 494,000 square feet for \$126,000,000, which will result in a net gain of approximately \$35,000,000. The sale, which is subject to customary closing conditions, is expected to be completed in the fourth quarter.

*Retail Properties*

In 2012, we sold 12 non-core strip shopping center properties in separate transactions, for an aggregate of \$157,000,000 in cash, which resulted in a net gain aggregating \$22,266,000 of which \$4,464,000 was recognized in the third quarter. In addition we have entered into an agreement to sell a building on Market Street, Philadelphia, which is part of the Gallery at Market East for \$60,000,000, which will result in a net gain of approximately \$35,000,000. The sale, which is subject to customary closing conditions, is expected to be completed in the fourth quarter.

On October 21, 2012, we entered into an agreement to sell the Green Acres Mall located in Valley Stream, New York, for \$500,000,000. Net proceeds from the sale will be approximately \$185,000,000. The financial statement gain will be approximately \$195,000,000. The tax gain will be approximately \$304,000,000, which is expected to be deferred as part of a like-kind exchange. The sale, which is expected to be completed in the first quarter of 2013, is subject to customary closing conditions and is conditioned on the closing of the sale of Kings Plaza (an Alexander’s property), which is being sold to the same purchaser.

On October 21, 2012, Alexander’s, our 32.4% owned affiliate, entered into an agreement to sell its Kings Plaza Regional Shopping Center located in Brooklyn, New York, for \$751,000,000. Upon completion of the sale, we will recognize a financial statement gain of approximately \$181,000,000. Alexander’s expects to distribute the taxable gain to its stockholders as a special long-term capital gain dividend, of which our share is approximately \$202,000,000 and we expect to pay this amount to our common shareholders as a special long-term capital gain dividend. The sale, which is subject to customary closing conditions, is expected to be completed in the fourth quarter.

**Overview – continued**

**2012 Financings**

*Secured Debt*

On January 9, 2012, we completed a \$300,000,000 refinancing of 350 Park Avenue, a 559,000 square foot Manhattan office building. The five-year fixed rate loan bears interest at 3.75% and amortizes based on a 30-year schedule beginning in the third year. The proceeds of the new loan and \$132,000,000 of existing cash were used to repay the existing loan and closing costs.

On March 5, 2012, we completed a \$325,000,000 refinancing of 100 West 33<sup>rd</sup> Street, a 1.1 million square foot property located on the entire Sixth Avenue block front between 32<sup>nd</sup> and 33<sup>rd</sup> Streets in Manhattan. The building contains the 257,000 square foot Manhattan Mall and 848,000 square feet of office space. The three-year loan bears interest at LIBOR plus 2.50% (2.73% at September 30, 2012) and has two one-year extension options. We retained net proceeds of approximately \$87,000,000, after repaying the existing loan and closing costs.

On July 26, 2012, we completed a \$150,000,000 refinancing of 2101 L Street, a 380,000 square foot office building located in Washington, DC. The twelve-year fixed rate loan bears interest at 3.97% and amortizes based on a 30-year schedule beginning in the third year.

On August 17, 2012, we completed a \$98,000,000 refinancing of 435 Seventh Avenue, a 43,000 square foot retail property in Manhattan. The seven-year loan bears interest at LIBOR plus 2.25% (2.47% at September 30, 2012). We retained net proceeds of approximately \$44,000,000 after repaying the existing loan and closing costs.

*Senior Unsecured Debt*

In April 2012, we redeemed all of the outstanding exchangeable and convertible senior debentures at par, for an aggregate of \$510,215,000 in cash.

### *Preferred Equity*

On July 11, 2012, we sold 12,000,000 5.70% Series K 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 \$291,144,000, after underwriters' discounts and issuance costs. Dividends on the Series K Preferred Shares are cumulative and payable quarterly in arrears. The Series K 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 K Preferred Shares at a redemption price of \$25.00 per share, plus accrued and unpaid dividends through the date of redemption. The Series K Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

On August 16, 2012, we redeemed all of the outstanding 7.0% Series E Cumulative Redeemable Preferred Shares at par, for an aggregate of \$75,000,000 in cash, plus accrued and unpaid dividends through the date of redemption.

### *Redeemable Noncontrolling Interests*

On July 19, 2012, we redeemed all of the outstanding 7.0% Series D-10 and 6.75% Series D-14 cumulative redeemable preferred units with an aggregate face amount of \$180,000,000 for \$168,300,000 in cash, plus accrued and unpaid distributions through the date of redemption.

**Overview – continued**

**Recently Issued Accounting Literature**

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Update No. 2011-04, *Fair Value Measurements (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS* (“ASU No. 2011-04”). ASU No. 2011-04 provides a uniform framework for fair value measurements and related disclosures between GAAP and International Financial Reporting Standards (“IFRS”) and requires additional disclosures, including: (i) quantitative information about unobservable inputs used, a description of the valuation processes used, and a qualitative discussion about the sensitivity of the measurements to changes in the unobservable inputs, for Level 3 fair value measurements; (ii) fair value of financial instruments not measured at fair value but for which disclosure of fair value is required, based on their levels in the fair value hierarchy; and (iii) transfers between Level 1 and Level 2 of the fair value hierarchy. The adoption of this update on January 1, 2012 did not have a material impact on our consolidated financial statements, but resulted in additional fair value measurement 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, 2011 in Management’s Discussion and Analysis of Financial Condition. There have been no significant changes to our policies during 2012.

**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 and the Hotel Pennsylvania.

| (Square feet in thousands)<br>Quarter Ended | New York |         | Washington,<br>DC | Retail Properties |         | Merchandise Mart |          |
|---|----------|---------|-------------------|-------------------|---------|------------------|----------|
|   | Office   | Retail  |                   | Strips            | Malls   | Office           | Showroom |
| <b>September 30, 2012:</b>                  |          |         |                   |                   |         |                  |          |
| Total square feet leased                    | 505      | 9       | 435               | 79                | 23      | 581              | 129      |
| Our share of square feet leased:            | 480      | 6       | 400               | 79                | 15      | 581              | 129      |
| Initial rent <sup>(1)</sup>                 | \$58.74  | \$99.10 | \$ 44.02          | \$24.41           | \$41.01 | \$33.01          | \$39.59  |
| Weighted average lease term (years)         | 10.9     | 6.4     | 9.1               | 6.5               | 6.9     | 14.9             | 5.9      |
| Second generation relet space:              |          |         |                   |                   |         |                  |          |
| Square feet                                 | 359      | 5       | 314               | 63                | 2       | 8                | 129      |
| Cash basis:                                 |          |         |                   |                   |         |                  |          |
| Initial rent <sup>(1)</sup>                 | \$61.99  | \$74.86 | \$ 40.57          | \$22.06           | \$46.75 | \$33.88          | \$39.59  |
| Prior escalated rent                        | \$56.95  | \$42.55 | \$ 37.24          | \$21.21           | \$43.74 | \$16.78          | \$40.22  |
| Percentage increase (decrease)              | 8.9%     | 22.7%   | 8.9%              | 4.0%              | 6.9%    | 101.9%           | (1.6%)   |
| GAAP basis:                                 |          |         |                   |                   |         |                  |          |
| Straight-line rent <sup>(2)</sup>           | \$62.27  | \$82.86 | \$ 41.41          | \$22.33           | \$46.75 | \$35.53          | \$40.03  |
| Prior straight-line rent                    | \$59.31  | \$42.55 | \$ 36.39          | \$20.53           | \$42.78 | \$14.07          | \$36.95  |
| Percentage increase                         | 5.0%     | 28.3%   | 13.8%             | 8.8%              | 9.3%    | 152.5%           | 8.3%     |
| Tenant improvements and leasing             |          |         |                   |                   |         |                  |          |

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|  |         |         |          |         |         |             |         |  |
|--|---------|---------|----------|---------|---------|-------------|---------|--|
| commissions:                                 |         |         |          |         |         |             |         |  |
| Per square foot                              | \$75.87 | \$37.98 | \$ 50.97 | \$ 2.22 | \$2.17  | \$97.44     | \$ 7.89 |  |
| Per square foot per annum:                   | \$ 6.96 | \$ 5.93 | \$ 5.60  | \$ 0.34 | \$ 4.66 | \$ 6.54 (3) | \$ 1.34 |  |
| Percentage of initial rent                   | 11.8%   | 3.0%    | 12.7%    | 1.4%    | 11.4%   | 19.8%       | 3.4%    |  |
| <b>Nine Months Ended September 30, 2012:</b> |         |         |          |         |         |             |         |  |
| Total square feet leased                     | 1,492   | 183     | 1,630    | 953     | 71      | 593         | 322     |  |
| Our share of square feet leased:             | 1,317   | 180     | 1,496    | 953     | 50      | 593         | 322     |  |
| Initial rent (1)                             | \$58.20 | \$5.39  | \$ 40.30 | \$18.04 | \$43.92 | \$2.97      | \$38.20 |  |
| Weighted average lease term (years)          | 9.5     | 12.0    | 7.3      | 8.4     | 4.7     | 14.7        | 5.9     |  |
| Second generation relet space:               |         |         |          |         |         |             |         |  |
| Square feet                                  | 1,032   | 152     | 1,367    | 721     | 12      | 20          | 322     |  |
| Cash basis:                                  |         |         |          |         |         |             |         |  |
| Initial rent (1)                             | \$59.78 | \$1.56  | \$ 39.25 | \$15.66 | \$2.80  | \$2.24      | \$38.20 |  |
| Prior escalated rent                         | \$56.92 | \$5.04  | \$ 38.90 | \$14.14 | \$7.60  | \$24.88     | \$38.94 |  |
| Percentage increase (decrease)               | 5.0%    | 19.4%   | 0.9%     | 10.7%   | 9.0%    | 29.6%       | (1.9%)  |  |
| GAAP basis:                                  |         |         |          |         |         |             |         |  |
| Straight-line rent (2)                       | \$59.46 | \$9.81  | \$ 39.15 | \$16.29 | \$3.75  | \$2.38      | \$38.49 |  |
| Prior straight-line rent                     | \$56.81 | \$6.31  | \$ 37.45 | \$13.04 | \$5.73  | \$23.15     | \$35.59 |  |
| Percentage increase                          | 4.7%    | 27.2%   | 4.5%     | 24.9%   | 14.4%   | 39.9%       | 8.1%    |  |
| Tenant improvements and leasing              |         |         |          |         |         |             |         |  |
| commissions:                                 |         |         |          |         |         |             |         |  |
| Per square foot                              | \$56.54 | \$28.51 | \$ 37.82 | \$ 8.57 | \$ 9.74 | \$6.41      | \$11.03 |  |
| Per square foot per annum:                   | \$ 5.95 | \$ 2.38 | \$ 5.18  | \$ 1.02 | \$ 2.07 | \$ 6.56 (3) | \$ 1.87 |  |
| Percentage of initial rent                   | 10.2%   | 2.3%    | 12.9%    | 5.7%    | 4.7%    | 19.9%       | 4.9%    |  |

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

(2) Represents the GAAP basis weighted average rent per square foot that is recognized over the term of the respective leases, and includes the effect of free rent and periodic step-ups in rent.

(3)

Includes \$6.50 per square foot per annum of tenant improvements and leasing commissions in connection with a 572,000 square foot lease.

**Overview – continued****Square footage (in service) and Occupancy as of September 30, 2012:**

| (Square feet in thousands)              | Number of Properties | Square Feet (in service) |           | Occupancy %          |  |
|---|----------------------|--------------------------|-----------|----------------------|--|
|   |                      | Total Portfolio          | Our Share |                      |  |
| New York:                               |                      |                          |           |                      |  |
| Office                                  | 30                   | 19,608                   | 16,627    | 95.8%                |  |
| Retail                                  | 47                   | 2,041                    | 1,883     | 95.9%                |  |
| Alexander's Hotel                       | 6                    | 2,179                    | 706       | 99.1%                |  |
| Pennsylvania                            | 1                    | 1,400                    | 1,400     |                      |  |
| Residential                             | 1                    | 284                      | 142       | 96.6%                |  |
|   |                      | 25,512                   | 20,758    | 95.9%                |  |
| Washington, DC                          | 73                   | 19,131                   | 16,521    | 84.0% <sup>(1)</sup> |  |
| Retail Properties:                      |                      |                          |           |                      |  |
| Strip Shopping Centers                  | 113                  | 15,461                   | 14,879    | 93.6%                |  |
| Regional Malls                          | 6                    | 5,226                    | 3,589     | 92.6%                |  |
|   |                      | 20,687                   | 18,468    | 93.4%                |  |
| Merchandise Mart:                       |                      |                          |           |                      |  |
| Office                                  | 2                    | 1,728                    | 1,719     | 92.4%                |  |
| Showroom                                | 2                    | 2,263                    | 2,263     | 95.5%                |  |
|   |                      | 3,991                    | 3,982     | 94.2%                |  |
| Other                                   |                      |                          |           |                      |  |
| 555 California Street                   | 3                    | 1,795                    | 1,257     | 92.6%                |  |
| Primarily Warehouses                    | 5                    | 1,096                    | 1,096     | 53.0%                |  |
|   |                      | 2,891                    | 2,353     |                      |  |
| Total square feet at September 30, 2012 |                      |                          | 72,212    | 62,082               |  |

(1) The occupancy rate for office properties excluding residential and other properties is 81.1%.

**Square footage (in service) and Occupancy as of December 31, 2011:****Square Feet (in service)**



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| (Square feet in thousands)             | Number of properties | Total Portfolio | Our Share | Occupancy %          |
|--|----------------------|-----------------|-----------|----------------------|
| New York:                              |                      |                 |           |                      |
| Office                                 | 30                   | 19,571          | 16,598    | 96.2%                |
| Retail                                 | 46                   | 2,239           | 1,982     | 95.6%                |
| Alexander's Hotel                      | 6                    | 2,179           | 706       | 98.7%                |
| Pennsylvania                           | 1                    | 1,400           | 1,400     |                      |
|  |                      | 25,389          | 20,686    | 96.2%                |
| Washington, DC                         | 73                   | 19,626          | 17,022    | 90.6% <sup>(1)</sup> |
| Retail Properties:                     |                      |                 |           |                      |
| Strip Shopping Centers                 | 112                  | 15,417          | 14,834    | 93.3%                |
| Regional Malls                         | 6                    | 5,448           | 3,800     | 92.7%                |
|  |                      | 20,865          | 18,634    | 93.1%                |
| Merchandise Mart:                      |                      |                 |           |                      |
| Office                                 | 2                    | 1,220           | 1,211     | 90.3%                |
| Showroom                               | 2                    | 2,715           | 2,715     | 89.8%                |
|  |                      | 3,935           | 3,926     | 89.9%                |
| Other                                  |                      |                 |           |                      |
| 555 California Street                  | 3                    | 1,795           | 1,257     | 93.1%                |
| Primarily Warehouses                   | 5                    | 1,235           | 1,235     | 45.3%                |
|  |                      | 3,030           | 2,492     |                      |
| Total square feet at December 31, 2011 |                      | 72,845          | 62,760    |                      |

(1) The occupancy rate for office properties excluding residential and other properties is 89.3%.

**Overview - continued****Square footage (in service) and Occupancy as of September 30, 2011:**

| (Square feet in thousands)              | Number of properties | Square Feet (in service) |           | Occupancy %          |
|---|----------------------|--------------------------|-----------|----------------------|
|   |                      | Total Portfolio          | Our Share |                      |
| New York:                               |                      |                          |           |                      |
| Office                                  | 29                   | 19,236                   | 17,136    | 95.4%                |
| Retail                                  | 45                   | 2,100                    | 1,907     | 97.1%                |
| Alexander's Hotel                       | 6                    | 2,192                    | 710       | 98.1%                |
| Pennsylvania                            | 1                    | 1,400                    | 1,400     |                      |
|   |                      | 24,928                   | 21,153    | 95.7%                |
| Washington, DC                          | 73                   | 19,699                   | 16,961    | 91.0% <sup>(1)</sup> |
| Retail Properties:                      |                      |                          |           |                      |
| Strip Shopping Centers                  | 111                  | 15,577                   | 14,994    | 92.3%                |
| Regional Malls                          | 6                    | 5,412                    | 3,773     | 93.3%                |
|   |                      | 20,989                   | 18,767    | 92.5%                |
| Merchandise Mart:                       |                      |                          |           |                      |
| Office                                  | 2                    | 1,207                    | 1,198     | 90.9%                |
| Showroom                                | 2                    | 2,728                    | 2,728     | 95.0%                |
|   |                      | 3,935                    | 3,926     | 93.8%                |
| Other                                   |                      |                          |           |                      |
| 555 California Street                   | 3                    | 1,795                    | 1,257     | 92.6%                |
| Primarily Warehouses                    | 5                    | 1,235                    | 1,235     | 35.2%                |
|   |                      | 3,030                    | 2,492     |                      |
| Total square feet at September 30, 2011 |                      | 72,581                   | 63,299    |                      |

(1) The occupancy rate for office properties excluding residential and other properties is 89.7%.

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

In our Form 10-K for the year ended December 31, 2011, as a result of the Base Realignment and Closure (“BRAC”) statute, we estimated that occupancy will decrease from 90% at year end, to between 82% to 84% in 2012 and that 2012 EBITDA from continuing operations will be lower than 2011 by approximately \$55,000,000 to \$65,000,000 based on 2,902,000 square feet expiring in 2012, partially offset by leasing over 1,000,000 square feet.

At September 30, 2012, occupancy is at 84.0% and EBITDA from continuing operations for the three and nine months ended September 30, 2012 is lower by approximately \$13,200,000 and \$39,000,000, respectively, than it was for the three and nine months ended September 30, 2011. Based on leasing activity as of September 30, 2012, we currently estimate that 2012 EBITDA from continuing operations will be lower than 2011 by approximately \$50,000,000 to \$60,000,000.

Of the 2,395,000 square feet subject to BRAC, 348,000 square feet has been taken out of service for redevelopment and 523,000 square feet has been leased or is pending. The table below summarizes the status of the BRAC space as of September 30, 2012.

|  | Rent Per    |           | Square Feet  |         |         |
|--|-------------|-----------|--------------|---------|---------|
|  | Square Foot | Total     | Crystal City | Skyline | Rosslyn |
| Resolved:                              |             |           |              |         |         |
| Relet as of September 30, 2012         | \$ 38.45    | 432,000   | 344,000      | 88,000  | -       |
| Leases pending                         | 39.49       | 91,000    | 38,000       | -       | 53,000  |
| Taken out of service for redevelopment |             | 348,000   | 348,000      | -       | -       |
|  |             | 871,000   | 730,000      | 88,000  | 53,000  |
| To Be Resolved:                        |             |           |              |         |         |
| Already vacated                        | 35.95       | 1,024,000 | 541,000      | 473,000 | 10,000  |
| Expiring in:                           |             |           |              |         |         |
| 2013                                   | 37.39       | 126,000   | -            | 43,000  | 83,000  |
| 2014                                   | 32.32       | 304,000   | 103,000      | 201,000 | -       |
| 2015                                   | 42.23       | 70,000    | 65,000       | 5,000   | -       |
|  |             | 1,524,000 | 709,000      | 722,000 | 93,000  |

|                                   |           |           |         |         |
|-----------------------------------|-----------|-----------|---------|---------|
| Total square feet subject to BRAC | 2,395,000 | 1,439,000 | 810,000 | 146,000 |
|-----------------------------------|-----------|-----------|---------|---------|

In the first quarter of 2012, we notified the lender that due to scheduled lease expirations resulting primarily from the effects of the BRAC statute, the Skyline properties had a 26% vacancy rate, which is expected to increase and, accordingly, cash flows are expected to decrease. As a result, our subsidiary that owns these properties does not have and is not expected to have for some time sufficient funds to pay all of its current obligations, including interest payments to the lender. Based on the projected vacancy and the significant amount of capital required to re-tenant these properties, at our request, the mortgage loan was transferred to the special servicer. In the second quarter of 2012, we entered into a forbearance agreement with the special servicer to apply cash flows of the property, before interest on the loan, towards the repayment of \$4,000,000 of tenant improvements and leasing commissions we recently funded in connection with a new lease at these properties. In the third quarter, we were repaid our capital in full. The forbearance agreement (amended September 1, 2012, to extend its maturity) provides that through the December 1, 2012 payment date, any interest shortfall would be deferred and added to the principal balance of the loan and not give rise to a loan default. As of September 30, 2012 the deferred interest amounted to \$16,711,000. 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 September 30, 2012 and 2011**

Effective January 1, 2012, as a result of certain organizational and operational changes, we redefined the New York business segment to encompass all of our Manhattan assets by including the 1.0 million square feet in 21 freestanding Manhattan street retail assets (formerly in our Retail segment), and the Hotel Pennsylvania and our interest in Alexander's, Inc. (formerly in our Other segment). Accordingly, we have reclassified the prior period segment financial results to conform to the current year presentation. See note (4) on page 55 for the elements of the New York segment's EBITDA.

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 September 30, 2012 and 2011.

(Amounts in thousands)

|   | <b>For the Three Months Ended September 30, 2012</b> |                 |                    |                   |                           |             |              |
|---|--|-----------------|--------------------|-------------------|---------------------------|-------------|--------------|
|   | <b>Total</b>   | <b>New York</b> | <b>Washington,</b> |                   | <b>Retail Merchandise</b> |             | <b>Other</b> |
|   |  |                 | <b>DC</b>          | <b>Properties</b> | <b>Mart</b>               | <b>Toys</b> |              |
| Property rentals                                  | \$ 492,989   | \$ 255,703      | \$ 115,641         | \$ 67,919         | \$ 31,625                 | \$ -        | \$ 22,101    |
| Straight-line rent adjustments                    | 11,910   | 8,140           | 1,267              | 2,392             | (171)                     | -           | 282          |
| Amortization of acquired below-market leases, net | 13,242   | 8,458           | 506                | 2,868             | -                         | -           | 1,410        |
| Total rentals                                     | 518,141  | 272,301         | 117,414            | 73,179            | 31,454                    | -           | 23,793       |
| Tenant expense reimbursements                     | 80,497   | 45,164          | 9,601              | 21,069            | 1,201                     | -           | 3,462        |
| Cleveland Medical Mart development project        | 72,651   | -               | -                  | -                 | 72,651                    | -           | -            |
| Fee and other income:                             |  |                 |                    |                   |                           |             |              |
| BMS cleaning fees                                 | 16,945   | 23,918          | -                  | -                 | -                         | -           | (6,973)      |
| Signage revenue                                   | 4,783  | 4,783           | -                  | -                 | -                         | -           | -            |
| Management and leasing fees                       | 7,234  | 1,816           | 4,615              | 736               | 142                       | -           | (75)         |
| Lease termination fees                            | 282  | 78              | 128                | 73                | 3                         | -           | -            |
| Other income                                      | 10,444   | 1,116           | 8,288              | 632               | 481                       | -           | (73)         |
| Total revenues                                    | 710,977  | 349,176         | 140,046            | 95,689            | 105,932                   | -           | 20,134       |
| Operating expenses                                | 264,487  | 159,048         | 50,305             | 33,519            | 19,130                    | -           | 2,485        |
| Depreciation and amortization                     | 124,335  | 57,967          | 29,825             | 18,202            | 7,439                     | -           | 10,902       |

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|   |           |          |          |          |         |         |          |
|---|-----------|----------|----------|----------|---------|---------|----------|
| General and administrative  | 48,742    | 6,739    | 6,668    | 6,103    | 4,120   | -       | 25,112   |
| Cleveland Medical Mart development project  | 70,431    | -        | -        | -        | 70,431  | -       | -        |
| Acquisition related costs and tenant buy-outs   | 1,070     | -        | -        | -        | -       | -       | 1,070    |
| Total expenses  | 509,065   | 223,754  | 86,798   | 57,824   | 101,120 | -       | 39,569   |
| Operating income (loss)   | 201,912   | 125,422  | 53,248   | 37,865   | 4,812   | -       | (19,435) |
| (Loss) applicable to Toys   | (8,585)   | -        | -        | -        | -       | (8,585) | -        |
| Income (loss) from partially owned entities   | 21,268    | 9,309    | (2,182)  | 342      | 219     | -       | 13,580   |
| Income from Real Estate Fund  | 5,509     | -        | -        | -        | -       | -       | 5,509    |
| Interest and other investment income, net   | 10,523    | 1,057    | 24       | 4        | -       | -       | 9,438    |
| Interest and debt expense   | (120,770) | (36,817) | (28,311) | (14,732) | (7,906) | -       | (33,004) |
| Income (loss) before income taxes   | 109,857   | 98,971   | 22,779   | 23,479   | (2,875) | (8,585) | (23,912) |
| Income tax (expense) benefit  | (3,015)   | (815)    | 25       | -        | 2,166   | -       | (4,391)  |
| Income (loss) from continuing operations  | 106,842   | 98,156   | 22,804   | 23,479   | (709)   | (8,585) | (28,303) |
| Income from discontinued operations   | 157,314   | -        | 126,437  | 11,085   | 19,792  | -       | -        |
| Net income (loss)   | 264,156   | 98,156   | 149,241  | 34,564   | 19,083  | (8,585) | (28,303) |
| Less net (income) loss attributable to noncontrolling interests in: Consolidated subsidiaries | (6,610)   | (2,092)  | -        | 97       | -       | -       | (4,615)  |
| Operating Partnership, including unit distributions   | (16,240)  | -        | -        | -        | -       | -       | (16,240) |
| Net income (loss) attributable to   |           |          |          |          |         |         |          |

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|   |                          |                           |           |                          |           |           |                          |
|---|--------------------------|---------------------------|-----------|--------------------------|-----------|-----------|--------------------------|
| Vornado   | 241,306                  | 96,064                    | 149,241   | 34,661                   | 19,083    | (8,585)   | (49,158)                 |
| Interest and debt<br>expense <sup>(2)</sup>       | 183,241                  | 46,823                    | 33,280    | 17,499                   | 8,916     | 34,526    | 42,197                   |
| Depreciation and<br>amortization <sup>(2)</sup>   | 177,593                  | 62,905                    | 35,071    | 21,345                   | 7,662     | 33,160    | 17,450                   |
| Income tax<br>expense<br>(benefit) <sup>(2)</sup> | 3,850                    | 871                       | (25)      | -                        | 9,281     | (11,118)  | 4,841                    |
| EBITDA <sup>(1)</sup>                             | 605,990                  | 206,663                   | 217,567   | 73,505                   | 44,942    | 47,983    | 15,330                   |
| Less EBITDA<br>from discontinued<br>operations    | (176,110) <sup>(3)</sup> | -                         | (128,745) | (15,160)                 | (32,205)  | -         | -                        |
| EBITDA from<br>continuing<br>operations           | \$ 429,880               | \$ 206,663 <sup>(4)</sup> | \$ 88,822 | \$ 58,345 <sup>(5)</sup> | \$ 12,737 | \$ 47,983 | \$ 15,330 <sup>(6)</sup> |

See notes on page 55.

## Net Income and EBITDA by Segment for the Three Months Ended September 30, 2012 and 2011 - continued

(Amounts in thousands)

|   | For the Three Months Ended September 30, 2011 |              |             |             |             |              |               |
|---|---|--------------|-------------|-------------|-------------|--------------|---------------|
|   | Total   | New York     | Washington, | Retail      | Merchandise | Toys         | Other         |
|   |   |              | DC          | Properties  | Mart        |              |               |
| Property rentals                                  | \$ 507,258                                    | \$247,794    | \$ 133,659  | \$ 67,616   | \$ 35,586   | \$ -         | \$ 22,603     |
| Straight-line rent adjustments                    | 7,087   | 6,445        | (1,308)     | 1,911       | (501)       | -            | 540           |
| Amortization of acquired below-market leases, net | 15,847  | 9,833        | 557         | 4,346       | -           | -            | 1,111         |
| Total rentals                                     | 530,192                                       | 264,072      | 132,908     | 73,873      | 35,085      | -            | 24,254        |
| Tenant expense reimbursements                     | 85,757  | 49,125       | 9,640       | 23,059      | 1,681       | -            | 2,252         |
| Cleveland Medical Mart development project        | 35,135  | -            | -           | -           | 35,135      | -            | -             |
| Fee and other income:                             |   |              |             |             |             |              |               |
| BMS cleaning fees                                 | 15,647  | 22,571       | -           | -           | -           | -            | (6,924)       |
| Signage revenue                                   | 5,085   | 5,085        | -           | -           | -           | -            | -             |
| Management and leasing fees                       | 4,773   | 1,022        | 2,670       | 755         | 45          | -            | 281           |
| Lease termination fees                            | 4,803   | 3,540        | 1,002       | 261         | -           | -            | -             |
| Other income                                      | 6,468   | 1,049        | 5,039       | 229         | 543         | -            | (392)         |
| Total revenues                                    | 687,860                                       | 346,464      | 151,259     | 98,177      | 72,489      | -            | 19,471        |
| Operating expenses                                | 262,837                                       | 152,880      | 49,013      | 37,415      | 21,289      | -            | 2,240         |
| Depreciation and amortization                     | 126,935                                       | 55,685       | 32,346      | 20,414      | 7,642       | -            | 10,848        |
| General and administrative                        | 46,121  | 6,452        | 6,502       | 6,088       | 9,206       | -            | 17,873        |
| Cleveland Medical Mart development project        | 33,419  | -            | -           | -           | 33,419      | -            | -             |
| Acquisition related costs and tenant buy-outs     | 2,288   | 1,558        | -           | 35          | -           | -            | 695           |
| Total expenses                                    | 471,600                                       | 216,575      | 87,861      | 63,952      | 71,556      | -            | 31,656        |
| Operating income (loss)                           | 216,260<br>(9,304)                            | 129,889<br>- | 63,398<br>- | 34,225<br>- | 933<br>-    | -<br>(9,304) | (12,185)<br>- |



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|   |           |          |          |          |         |          |          |
|---|-----------|----------|----------|----------|---------|----------|----------|
| (Loss) applicable to Toys   |           |          |          |          |         |          |          |
| Income (loss) from partially owned entities                         | 13,140    | 1,203    | (1,356)  | 575      | 38      | -        | 12,680   |
| Income from Real Estate Fund  | 5,353     | -        | -        | -        | -       | -        | 5,353    |
| Interest and other investment (loss) income, net                    | (30,011)  | 1,047    | 39       | 1        | 1       | -        | (31,099) |
| Interest and debt expense   | (131,998) | (39,088) | (28,928) | (17,639) | (7,866) | -        | (38,477) |
| Net gain on disposition of wholly owned and partially owned assets  | 1,298     | -        | -        | -        | -       | -        | 1,298    |
| Income (loss) before income taxes                                   | 64,738    | 93,051   | 33,153   | 17,162   | (6,894) | (9,304)  | (62,430) |
| Income tax expense  | (6,959)   | (678)    | (881)    | -        | (784)   | -        | (4,616)  |
| Income (loss) from continuing operations                            | 57,779    | 92,373   | 32,272   | 17,162   | (7,678) | (9,304)  | (67,046) |
| Income (loss) from discontinued operations                          | 8,444     | 165      | 1,622    | 6,272    | 483     | -        | (98)     |
| Net income (loss)   | 66,223    | 92,538   | 33,894   | 23,434   | (7,195) | (9,304)  | (67,144) |
| Less net (income) loss attributable to noncontrolling interests in: |           |          |          |          |         |          |          |
| Consolidated subsidiaries   | (5,636)   | (2,219)  | -        | 110      | -       | -        | (3,527)  |
| Operating Partnership, including unit distributions                 | (6,825)   | -        | -        | -        | -       | -        | (6,825)  |
| Net income (loss) attributable to Vornado                           | 53,762    | 90,319   | 33,894   | 23,544   | (7,195) | (9,304)  | (77,496) |
| Interest and debt expense <sup>(2)</sup>                            | 197,864   | 46,691   | 33,703   | 20,678   | 9,523   | 38,018   | 49,251   |
| Depreciation and amortization <sup>(2)</sup>                        | 193,394   | 65,539   | 38,085   | 24,117   | 12,230  | 34,293   | 19,130   |
| Income tax (benefit) expense <sup>(2)</sup>                         | (7,350)   | 734      | 925      | -        | 890     | (15,135) | 5,236    |
| EBITDA <sup>(1)</sup>   | 437,670   | 203,283  | 106,607  | 68,339   | 15,448  | 47,872   | (3,879)  |
| Less EBITDA from discontinued                                       |           |          |          |          |         |          |          |

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|             |                         |                          |            |                          |          |           |                           |
|-------------|-------------------------|--------------------------|------------|--------------------------|----------|-----------|---------------------------|
| operations  | (22,597) <sup>(3)</sup> | (276)                    | (4,568)    | (11,288)                 | (6,563)  | -         | 98                        |
| EBITDA from |                         |                          |            |                          |          |           |                           |
| continuing  |                         |                          |            |                          |          |           |                           |
| operations  | \$ 415,073              | \$203,007 <sup>(4)</sup> | \$ 102,039 | \$ 57,051 <sup>(5)</sup> | \$ 8,885 | \$ 47,872 | \$ (3,781) <sup>(6)</sup> |

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See notes on the following page.

**Net Income and EBITDA by Segment for the Three Months Ended September 30, 2012 and 2011 - 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 following table reconciles income from discontinued operations to EBITDA from discontinued operations.

**For the Three Months Ended September  
30,**

| (Amounts in thousands)              | <b>2012</b> | <b>2011</b> |
|-------------------------------------|-------------|-------------|
| Income from discontinued operations | \$ 157,314  | \$ 8,444    |
| Interest and debt expense           | 3,799       | 4,732       |
| Depreciation and amortization       | 3,560       | 9,236       |
| Income taxes                        | 11,437      | 185         |
| EBITDA from discontinued operations | \$ 176,110  | \$ 22,597   |

- (4) The elements of "New York" EBITDA from continuing operations are summarized below.

**For the Three Months Ended September  
30,**

| (Amounts in thousands) | <b>2012</b> | <b>2011</b> |
|------------------------|-------------|-------------|
| Office                 | \$ 139,894  | \$ 137,295  |
| Retail                 | 46,165      | 43,109      |
| Alexander's            | 13,080      | 12,830      |
| Hotel Pennsylvania     | 7,524       | 9,773       |
| Total New York         | \$ 206,663  | \$ 203,007  |

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

**For the Three Months Ended September  
30,**

| (Amounts in thousands)  | <b>2012</b> | <b>2011</b> |
|-------------------------|-------------|-------------|
| Strip shopping centers  | \$ 42,468   | \$ 41,282   |
| Regional malls          | 15,877      | 15,769      |
| Total retail properties | \$ 58,345   | \$ 57,051   |

**Net Income and EBITDA by Segment for the Three Months Ended September 30, 2012 and 2011 - continued****Notes to preceding tabular information - continued:**

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

| (Amounts in thousands)   | <b>For the Three Months Ended September 30,</b> |             |
|--|---|-------------|
|  | <b>2012</b>                                     | <b>2011</b> |
| Our share of Real Estate Fund:   |   |             |
| Income before net realized/unrealized gains  | \$ 1,874  | \$ 743      |
| Net unrealized gains   | 1,389   | 1,410       |
| Carried interest   | (2,541)   | (475)       |
| Total  | 722   | 1,678       |
| LNR  | 18,773  | 15,769      |
| 555 California Street  | 10,714  | 11,220      |
| Lexington  | 7,859   | 8,424       |
| Other investments  | 11,121  | 10,173      |
|  | 49,189  | 47,264      |
| Corporate general and administrative expenses <sup>(a)</sup>   | (22,811)  | (21,585)    |
| Investment income and other, net <sup>(a)</sup>  | 5,033   | 12,541      |
| Fee income from Alexander's  | 1,821   | 1,758       |
| Verde Realty impairment loss   | (4,936)   | -           |
| Income (loss) from the mark-to-market of J.C. Penney derivative position                                       | 4,344   | (37,537)    |
| Acquisition costs  | (1,070)   | (695)       |
| Net gain on sale of residential condominiums   | -   | 1,298       |
| Net income attributable to noncontrolling interests in the Operating Partnership, including unit distributions | (16,240)  | (6,825)     |
|  | \$ 15,330                                       | \$ (3,781)  |

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

**Net Income and EBITDA by Segment for the Three Months Ended September 30, 2012 and 2011 - continued****EBITDA by Region**

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, Retail Properties and Merchandise Mart segments.

| <b>Region:</b>  | <b>For the Three Months<br/>Ended September 30,</b> |             |
|---|---|-------------|
|   | <b>2012</b>   | <b>2011</b> |
| New York City metropolitan area                         | 66%   | 64%         |
| Washington, DC / Northern Virginia<br>metropolitan area | 25%   | 28%         |
| Chicago   | 4%  | 3%          |
| California  | 2%  | 2%          |
| Puerto Rico   | 2%  | 2%          |
| Other geographies                                       | 1%  | 1%          |
|   | 100%  | 100%        |

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**Results of Operations – Three Months Ended September 30, 2012 Compared to September 30, 2011****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 \$710,977,000 in the three months ended September 30, 2012, compared to \$687,860,000 in the prior year's quarter, an increase of \$23,117,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to:                       | Total      | New York | Washington, DC | Retail Properties | Merchandise Mart | Other |
|---|------------|----------|----------------|-------------------|------------------|-------|
| <b>Property rentals:</b>                          |            |          |                |                   |                  |       |
| Acquisitions                                      | \$ 3,910   | \$ 2,507 | \$ 1,403       | \$ -              | \$ -             | \$ -  |
| Development (out of service)                      | (8,571)    | (1,368)  | (6,255)        | (948)             | -                | -     |
| Hotel Pennsylvania                                | (1,916)    | (1,916)  | -              | -                 | -                | -     |
| Trade Shows                                       | (1,509)    | -        | -              | -                 | (1,509)          | -     |
| Amortization of acquired below-market leases, net | (2,605)    | (1,375)  | (51)           | (1,478)           | -                | 299   |
| Leasing activity (see page 49)                    | (1,360)    | 10,381   | (10,591)       | 1,732             | (2,122)          | (760) |
|   | (12,051)   | 8,229    | (15,494)       | (694)             | (3,631)          | (461) |
| <b>Tenant expense reimbursements:</b>             |            |          |                |                   |                  |       |
| Acquisitions/development                          | (6,604)    | (2,926)  | (588)          | (3,090)           | -                | -     |
| Operations  | 1,344      | (1,035)  | 549            | 1,100             | (480)            | 1,210 |
|   | (5,260)    | (3,961)  | (39)           | (1,990)           | (480)            | 1,210 |
| <b>Cleveland Medical Mart development project</b> | 37,516 (1) | -        | -              | -                 | 37,516 (1)       | -     |
| <b>Fee and other income:</b>                      |            |          |                |                   |                  |       |
| BMS cleaning fees                                 | 1,298      | 1,347    | -              | -                 | -                | (49)  |
| Signature revenue                                 | (302)      | (302)    | -              | -                 | -                | -     |
|   | 2,461      | 794      | 1,945          | (19)              | 97               | (356) |

|                                       |           |          |             |            |           |        |
|---------------------------------------|-----------|----------|-------------|------------|-----------|--------|
| Management and leasing fees           |           |          |             |            |           |        |
| Lease termination fees                | (4,521)   | (3,462)  | (874)       | (188)      | 3         | -      |
| Other income                          | 3,976     | 67       | 3,249       | 403        | (62)      | 319    |
|                                       | 2,912     | (1,556)  | 4,320       | 196        | 38        | (86)   |
| Total increase (decrease) in revenues | \$ 23,117 | \$ 2,712 | \$ (11,213) | \$ (2,488) | \$ 33,443 | \$ 663 |

(1) This increase in income is offset by an increase in development costs expensed in the quarter. See note (3) on page 59.

**Results of Operations – Three Months Ended September 30, 2012 Compared to September 30, 2011 - continued**Expenses

Our expenses, which consist primarily of operating, depreciation and amortization and general and administrative expenses, were \$509,065,000 in the three months ended September 30, 2012, compared to \$471,600,000 in the prior year's quarter, an increase of \$37,465,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to:                                | Total    | New York | Washington, DC | Retail Properties | Merchandise Mart | Other |
|--|----------|----------|----------------|-------------------|------------------|-------|
| <b>Operating:</b>  |          |          |                |                   |                  |       |
| Acquisitions   | \$ 3,329 | \$ 2,447 | \$ 882         | \$ -              | \$ -             | \$ -  |
| Development (out of service)                               | (4,117)  | (492)    | (1,414)        | (2,211)           | -                | -     |
| Non-reimbursable expenses, including                       |          |          |                |                   |                  |       |
| bad debt reserves  | (4,167)  | (2,183)  | 316            | (996)             | (1,304)          | -     |
| Hotel Pennsylvania   | 307      | 307      | -              | -                 | -                | -     |
| Trade Shows  | (119)    | -        | -              | -                 | (119)            | -     |
| BMS expenses   | 1,295    | 1,344    | -              | -                 | -                | (49)  |
| Operations   | 5,122    | 4,745    | 1,508          | (689)             | (736)            | 294   |
|  | 1,650    | 6,168    | 1,292          | (3,896)           | (2,159)          | 245   |
| <b>Depreciation and amortization:</b>                      |          |          |                |                   |                  |       |
| Acquisitions/development                                   | (2,415)  | (183)    | (687)          | (1,545)           | -                | -     |
| Operations   | (185)    | 2,465    | (1,834)        | (667)             | (203)            | 54    |
|  | (2,600)  | 2,282    | (2,521)        | (2,212)           | (203)            | 54    |
| <b>General and administrative:</b>                         |          |          |                |                   |                  |       |
| Mark-to-market of deferred compensation plan liability (1) | 6,359    | -        | -              | -                 | -                | 6,359 |
| Operations   | (3,738)  | 287      | 166            | 15                | (5,086)(2)       | 880   |

Revenues

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|  |            |          |            |            |            |          |
|--|------------|----------|------------|------------|------------|----------|
|  | 2,621      | 287      | 166        | 15         | (5,086)    | 7,239    |
| <b>Cleveland Medical Mart development project</b>    | 37,012 (3) | -        | -          | -          | 37,012 (3) | -        |
| <b>Acquisition related costs and tenant buy-outs</b> | (1,218)    | (1,558)  | -          | (35)       | -          | 375      |
| Total increase (decrease) in expenses                | \$ 37,465  | \$ 7,179 | \$ (1,063) | \$ (6,128) | \$ 29,564  | \$ 7,913 |

(1) This increase in expense is entirely offset by a corresponding increase in income from the mark-to-market of the deferred compensation plan assets, a component of “interest and other investment income (loss), net” on our consolidated statements of income.

(2) Primarily from lower payroll costs due to a reduction in workforce.

(3) This increase in expense is offset by the increase in development revenue in the quarter. See note (1) on page 58.

**Results of Operations – Three Months Ended September 30, 2012 Compared to September 30, 2011 - continued**Loss Applicable to Toys

In the three months ended September 30, 2012, we recognized a net loss of \$8,585,000 from our investment in Toys, comprised of \$10,956,000 for our 32.5% share of Toys' net loss (\$22,074,000 before our share of Toys' income tax benefit) and \$2,371,000 of management fees. In the three months ended September 30, 2011, we recognized a net loss of \$9,304,000 from our investment in Toys, comprised of \$11,638,000 for our 32.7% share of Toys' net loss (\$26,773,000 before our share of Toys' income tax benefit) and \$2,334,000 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 September 30, 2012 and 2011.

| (Amounts in thousands)  | Percentage<br>Ownership at<br>September 30,<br>2012 | For the Three Months Ended<br>September 30, |          |
|---|---|---|----------|
|   |   | 2012  | 2011     |
| <b>Equity in Net Income (Loss):</b>                                   |   |   |          |
| Alexander's   | 32.4%   | \$ 8,958                                    | \$ 8,195 |
| Lexington   | 11.8%   | (323)                                       | (617)    |
| LNR   | 26.2%   | 16,600                                      | 13,656   |
| India real estate ventures  | 4.0%-36.5%  | 82  | (690)    |
| Partially owned office buildings:                                     |   |   |          |
| Warner Building   | 55.0%   | (2,839)                                     | (2,783)  |
| 666 Fifth Avenue Office<br>Condominium (acquired in<br>December 2011) | 49.5%   | 1,744                                       | -        |
| 280 Park Avenue   | 49.5%   | (1,717)                                     | (6,461)  |
| 330 Madison Avenue  | 25.0%   | 1,224                                       | 315      |
| 1101 17th Street  | 55.0%   | 591   | 671      |
| One Park Avenue   | 30.3%   | 256   | 124      |
| Rosslyn Plaza   | 43.7%-50.4%   | (204)                                       | (60)     |

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|   |         |           |           |
|---|---------|-----------|-----------|
| West 57th Street Properties                         | 50.0%   | 167       | 298       |
| Fairfax Square                                      | 20.0%   | (33)      | (22)      |
| Other partially owned office buildings              | Various | 505       | 1,079     |
| Other investments:                                  |         |           |           |
| Verde Realty Operating Partnership <sup>(1)</sup>   | 8.3%    | (5,388)   | 2,413     |
| Independence Plaza Partnership (mezzanine position) | 51.0%   | 1,828     | 1,811     |
| Monmouth Mall                                       | 50.0%   | 347       | 631       |
| Downtown Crossing, Boston                           | 50.0%   | (38)      | (408)     |
| Other investments                                   | Various | (492)     | (5,012)   |
|   |         | \$ 21,268 | \$ 13,140 |

(1) In the third quarter of 2012, we converted our 2,015,151 units in Verde Realty Operating Partnership into 2,015,151 common shares of Verde Realty ("Verde"). Pursuant to a merger agreement which was approved by Verde shareholders on September 14, 2012, we accepted an offer to receive cash of \$13.85 per share, or \$27,910 in the aggregate; accordingly, we recognized a \$4,936 impairment loss in the third quarter.

**Results of Operations – Three Months Ended September 30, 2012 Compared to September 30, 2011 - continued**Income from Real Estate Fund

Below are the components of the income from our Real Estate Fund for the three months ended September 30, 2012 and 2011.

| (Amounts in thousands)  | For the Three Months Ended September 30, |          |
|---|--|----------|
|   | 2012                                     | 2011     |
| Operating loss  | \$ (49)                                  | \$ (286) |
| Net unrealized gains  | 5,558                                    | 5,639    |
| Income from Real Estate Fund  | 5,509                                    | 5,353    |
| Less (income) attributable to noncontrolling interests              | (4,787)                                  | (3,675)  |
| Income from Real Estate Fund attributable to Vornado <sup>(1)</sup> | \$ 722                                   | \$ 1,678 |

(1) Excludes management, leasing and development fees of \$681 and \$638 for the three months ended September 30, 2012 and 2011, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

Interest and Other Investment Income (Loss), net

Interest and other investment income (loss), net (comprised primarily of the mark-to-market of derivative positions in marketable equity securities, interest income on mezzanine loans receivable and other interest and dividend income) was income of \$10,523,000 in the three months ended September 30, 2012, compared to a loss of \$30,011,000 in the prior year's quarter, an increase of \$40,534,000. This increase resulted from:

(Amounts in thousands)

J.C. Penney derivative position (\$4,344 mark-to-market gain in the current year's quarter, compared to

\$ 41,881

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|   |           |
|---|-----------|
| \$37,537 mark-to-market loss in the prior year's quarter)   |           |
| Dividends and interest on marketable securities in the prior year's quarter   | (7,605)   |
| Increase in the value of investments in our deferred compensation plan (offset by a corresponding increase in the liability for plan assets in general and administrative expenses) | 6,359     |
| Other, net  | (101)     |
|   | \$ 40,534 |

Interest and Debt Expense

Interest and debt expense was \$120,770,000 in the three months ended September 30, 2012, compared to \$131,998,000 in the prior year's quarter, a decrease of \$11,228,000. This decrease was primarily due to (i) \$9,082,000 from the redemption of our exchangeable and convertible senior debentures in April 2012 and November 2011, respectively, (ii) \$7,523,000 of capitalized interest in the current period, and (iii) \$3,212,000 from the refinancing of 350 Park Avenue in January 2012 (of which \$1,860,000 was due to a lower rate and \$1,352,000 was due to a lower outstanding loan balance), partially offset by (iv) \$5,045,000 from the issuance of \$400,000,000 of senior unsecured notes in November 2011, and (v) \$1,849,000 from the refinancing of 100 West 33<sup>rd</sup> Street in March 2012.

Net Gain on Disposition of Wholly Owned and Partially Owned Assets

Net gain on disposition of wholly owned and partially owned assets was \$1,298,000 in the three months ended September 30, 2011 and resulted primarily from the sale of residential condominiums.

Income Tax Expense

Income tax expense was \$3,015,000 in the three months ended September 30, 2012, compared to \$6,959,000 in the prior year's quarter, a decrease of \$3,944,000. This decrease resulted primarily from the true-up of estimated tax liabilities of our taxable REIT subsidiaries.

**Results of Operations – Three Months Ended September 30, 2012 Compared to September 30, 2011 - 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 September 30, 2012 and 2011.

| (Amounts in thousands)                                      | <b>For the Three Months Ended<br/>September 30,</b> |             |
|---|---|-------------|
|   | <b>2012</b>   | <b>2011</b> |
| Total revenues  | \$ 27,651   | \$ 49,656   |
| Total expenses  | 21,082  | 41,212      |
|   | 6,569   | 8,444       |
| Net gains on sale of real estate                            | 131,088   | -           |
| Gain on sale of Canadian Trade Shows, net of<br>\$11,448 of |   |             |
| income taxes  | 19,657  | -           |
| Income from discontinued operations                         | \$ 157,314  | \$ 8,444    |

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was \$6,610,000 in the three months ended September 30, 2012, compared to \$5,636,000 in the prior year’s quarter, an increase of \$974,000. This increase resulted primarily from higher income allocated to the noncontrolling interests of our Real Estate Fund.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership, including Unit Distributions

Net income attributable to noncontrolling interests in the Operating Partnership, including unit distributions for the three months ended September 30, 2012 and 2011 is primarily comprised of allocations of income to redeemable noncontrolling interests of \$14,837,000 and \$2,797,000, respectively, and preferred unit distributions of the Operating Partnership of \$1,403,000 and \$4,028,000, respectively. The increase of \$12,040,000 in allocations of income to redeemable noncontrolling interests resulted primarily from higher net income subject to allocation to unitholders. The decrease of \$2,625,000 in preferred unit distributions of the Operating Partnership 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 \$20,613,000 in the three months ended September 30, 2012, compared to \$17,627,000 in the prior year's quarter, an increase of \$2,986,000. This increase resulted from the issuance of \$300,000,000 of 5.70% Series K cumulative redeemable preferred shares in July 2012, partially offset by redemption of \$75,000,000 of 7.0% Series E cumulative redeemable preferred shares in August 2012.

#### Discount on Preferred Unit Redemption

In the three months ended September 30, 2012, we recognized a \$11,700,000 discount from the redemption of all of the 7.0% Series D-10 and 6.75% Series D-14 cumulative redeemable preferred units, compared to a \$5,000,000 discount in the prior year's quarter from the redemption of Series D-11 cumulative redeemable preferred units.

**Results of Operations – Three Months Ended September 30, 2012 Compared to September 30, 2011 - continued**Same Store EBITDA

Same store EBITDA represents EBITDA from property level operations which are owned by us in both the current and prior year reporting periods. Same store EBITDA excludes segment-level overhead expenses, which are expenses that we do not consider to be property-level expenses, as well as other non-operating items. We 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 the same store EBITDA results on a GAAP and cash basis for each of our segments for the three months ended September 30, 2012, compared to the three months ended September 30, 2011.

|   | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Retail<br/>Properties</b> | <b>Merchandise<br/>Mart</b> |
|---|-----------------|---------------------------|------------------------------|-----------------------------|
| (Amounts in thousands)  |                 |                           |                              |                             |
| EBITDA for the three months ended September 30, 2012  | \$ 206,663      | \$ 217,567                | \$ 73,505                    | \$ 44,942                   |
| Add-back: non-property level overhead expenses included above   | 6,739           | 6,668                     | 6,103                        | 4,120                       |
| Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses                             | (13,236)        | (128,541)                 | (17,346)                     | (32,205)                    |
| GAAP basis same store EBITDA for the three months ended September 30, 2012  | 200,166         | 95,694                    | 62,262                       | 16,857                      |
| Less: Adjustments for straight-line rents, amortization of below-market leases, net, and other non-cash adjustments | (20,611)        | (1,943)                   | (3,830)                      | 171                         |
| Cash basis same store EBITDA for the three months   |                 |                           |                              |                             |
| Revenues  |                 |                           |                              | 128                         |



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|  |            |            |           |           |
|--|------------|------------|-----------|-----------|
| ended September 30, 2012   | \$ 179,555 | \$ 93,751  | \$ 58,432 | \$ 17,028 |
| EBITDA for the three months ended September 30, 2011   | \$ 203,283 | \$ 106,607 | \$ 68,339 | \$ 15,448 |
| Add-back: non-property level overhead expenses included above  | 6,452      | 6,502      | 6,088     | 9,206     |
| Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses  | (10,107)   | (10,310)   | (12,250)  | (7,648)   |
| GAAP basis same store EBITDA for the three months ended September 30, 2011   | 199,628    | 102,799    | 62,177    | 17,006    |
| Less: Adjustments for straight-line rents, amortization of below-market leases, net, and other non-cash adjustments                              | (21,353)   | 454        | (5,163)   | 501       |
| Cash basis same store EBITDA for the three months ended September 30, 2011   | \$ 178,275 | \$ 103,253 | \$ 57,014 | \$ 17,507 |
| Increase (decrease) in GAAP basis same store EBITDA for the three months ended September 30, 2012 over the three months ended September 30, 2011 | \$ 538     | \$ (7,105) | \$ 85     | \$ (149)  |
| Increase (decrease) in Cash basis same store EBITDA for the three months ended September 30, 2012 over the three months ended September 30, 2011 | \$ 1,280   | \$ (9,502) | \$ 1,418  | \$ (479)  |
| % increase (decrease) in GAAP basis same store EBITDA  | 0.3%       | (6.9%)     | 0.1%      | (0.9%)    |
| % increase (decrease) in Cash basis same store EBITDA  | 0.7%       | (9.2%)     | 2.5%      | (2.7%)    |

**Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2012 and 2011**

Effective January 1, 2012, as a result of certain organizational and operational changes, we redefined the New York business segment to encompass all of our Manhattan assets by including the 1.0 million square feet in 21 freestanding Manhattan street retail assets (formerly in our Retail segment), and the Hotel Pennsylvania and our interest in Alexander's, Inc. (formerly in our Other segment). Accordingly, we have reclassified the prior period segment financial results to conform to the current year presentation. See note (4) on page 66 for the elements of the New York segment's EBITDA.

Below is a summary of net income and a reconciliation of net income to EBITDA<sup>(1)</sup> by segment for the nine months ended September 30, 2012 and 2011.

(Amounts in thousands)

|   | <b>For the Nine Months Ended September 30, 2012</b> |                 |                    |                   |                           |             |              |
|---|---|-----------------|--------------------|-------------------|---------------------------|-------------|--------------|
|   | <b>Total</b>  | <b>New York</b> | <b>Washington,</b> |                   | <b>Retail Merchandise</b> |             |              |
|   |   |                 | <b>DC</b>          | <b>Properties</b> | <b>Mart</b>               | <b>Toys</b> | <b>Other</b> |
| Property rentals                                  | \$ 1,469,751  | \$ 735,587      | \$ 356,459         | \$ 203,237        | \$ 107,687                | \$ -        | \$ 66,781    |
| Straight-line rent adjustments                    | 55,189  | 42,334          | 4,382              | 7,285             | 580                       | -           | 608          |
| Amortization of acquired below-market leases, net | 39,228  | 23,776          | 1,537              | 9,648             | -                         | -           | 4,267        |
| Total rentals                                     | 1,564,168   | 801,697         | 362,378            | 220,170           | 108,267                   | -           | 71,656       |
| Tenant expense reimbursements                     | 224,287   | 118,861         | 30,471             | 64,915            | 3,702                     | -           | 6,338        |
| Cleveland Medical Mart development project        | 184,014   | -               | -                  | -                 | 184,014                   | -           | -            |
| Fee and other income:                             |   |                 |                    |                   |                           |             |              |
| BMS cleaning fees                                 | 49,437  | 70,476          | -                  | -                 | -                         | -           | (21,039)     |
| Signage revenue                                   | 14,252  | 14,252          | -                  | -                 | -                         | -           | -            |
| Management and leasing fees                       | 16,534  | 4,037           | 9,782              | 2,640             | 188                       | -           | (113)        |
| Lease termination fees                            | 1,172   | 334             | 256                | 74                | 508                       | -           | -            |
| Other income                                      | 24,623  | 3,449           | 18,846             | 1,361             | 1,221                     | -           | (254)        |
| Total revenues                                    | 2,078,487   | 1,013,106       | 421,733            | 289,160           | 297,900                   | -           | 56,588       |

Revenues

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|  |           |           |          |          |          |        |           |
|--|-----------|-----------|----------|----------|----------|--------|-----------|
| Operating expenses   | 764,018   | 447,910   | 143,923  | 104,788  | 59,929   | -      | 7,468     |
| Depreciation and amortization                                      | 386,974   | 168,391   | 107,395  | 56,830   | 22,324   | -      | 32,034    |
| General and administrative   | 151,142   | 21,980    | 19,849   | 18,803   | 14,877   | -      | 75,633    |
| Cleveland Medical Mart development project                         | 177,127   | -         | -        | -        | 177,127  | -      | -         |
| Acquisition related costs and tenant buy-outs                      | 4,314     | -         | -        | -        | -        | -      | 4,314     |
| Total expenses   | 1,483,575 | 638,281   | 271,167  | 180,421  | 274,257  | -      | 119,449   |
| Operating income (loss)  | 594,912   | 374,825   | 150,566  | 108,739  | 23,643   | -      | (62,861)  |
| Income applicable to Toys  | 88,696    | -         | -        | -        | -        | 88,696 | -         |
| Income (loss) from partially owned entities                        | 53,491    | 20,345    | (4,571)  | 1,040    | 560      | -      | 36,117    |
| Income from Real Estate Fund                                       | 37,572    | -         | -        | -        | -        | -      | 37,572    |
| Interest and other investment (loss) income, net                   | (22,984)  | 3,166     | 97       | 24       | -        | -      | (26,271)  |
| Interest and debt expense  | (377,600) | (109,365) | (85,408) | (49,705) | (23,467) | -      | (109,655) |
| Net gain on disposition of wholly owned and partially owned assets | 4,856     | -         | -        | -        | -        | -      | 4,856     |
| Income (loss) before income taxes                                  | 378,943   | 288,971   | 60,684   | 60,098   | 736      | 88,696 | (120,242) |
| Income tax (expense) benefit                                       | (17,319)  | (2,480)   | (1,277)  | -        | 343      | -      | (13,905)  |
| Income (loss) from continuing operations                           | 361,624   | 286,491   | 59,407   | 60,098   | 1,079    | 88,696 | (134,147) |

Revenues

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|   |                          |                           |            |                           |           |            |                         |
|---|--------------------------|---------------------------|------------|---------------------------|-----------|------------|-------------------------|
| Income (loss)<br>from<br>discontinued<br>operations   | 241,024                  | (640)                     | 130,979    | 36,404                    | 67,291    | -          | 6,990                   |
| Net income<br>(loss)  | 602,648                  | 285,851                   | 190,386    | 96,502                    | 68,370    | 88,696     | (127,157)               |
| Less net<br>(income) loss<br>attributable to<br>noncontrolling<br>interests in:<br>Consolidated<br>subsidiaries | (30,928)                 | (7,266)                   | -          | 308                       | -         | -          | (23,970)                |
| Operating<br>Partnership,<br>including<br>unit<br>distributions   | (40,595)                 | -                         | -          | -                         | -         | -          | (40,595)                |
| Net income<br>(loss)<br>attributable to<br>Vornado  | 531,125                  | 278,585                   | 190,386    | 96,810                    | 68,370    | 88,696     | (191,722)               |
| Interest and<br>debt expense <sup>(2)</sup>   | 567,265                  | 140,294                   | 99,486     | 58,039                    | 26,492    | 103,388    | 139,566                 |
| Depreciation<br>and<br>amortization <sup>(2)</sup>  | 552,794                  | 188,480                   | 122,987    | 65,751                    | 26,966    | 100,371    | 48,239                  |
| Income tax<br>expense <sup>(2)</sup>  | 50,076                   | 2,677                     | 1,532      | -                         | 11,658    | 17,982     | 16,227                  |
| EBITDA <sup>(1)</sup>   | 1,701,260                | 610,036                   | 414,391    | 220,600                   | 133,486   | 310,437    | 12,310                  |
| Less EBITDA<br>from<br>discontinued<br>operations   | (279,464) <sup>(3)</sup> | 640                       | (138,707)  | (48,251)                  | (86,156)  | -          | (6,990)                 |
| EBITDA from<br>continuing<br>operations   | \$ 1,421,796             | \$ 610,676 <sup>(4)</sup> | \$ 275,684 | \$ 172,349 <sup>(5)</sup> | \$ 47,330 | \$ 310,437 | \$ 5,320 <sup>(6)</sup> |

See notes on page 66.

## Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2012 and 2011 - continued

(Amounts in thousands)

|   | For the Nine Months Ended September 30, 2011 |            |                |            |             |      |           |
|---|--|------------|----------------|------------|-------------|------|-----------|
|   | Total  | New York   | Retail         |            | Merchandise |      | Other     |
|   |  |            | Washington, DC | Properties | Mart        | Toys |           |
| Property rentals                                  | \$ 1,517,994                                 | \$ 727,886 | \$ 400,909     | \$ 202,701 | \$ 118,540  | \$ - | \$ 67,958 |
| Straight-line rent adjustments                    | 26,192                                       | 22,636     | (2,138)        | 4,666      | (1,261)     | -    | 2,289     |
| Amortization of acquired below-market leases, net | 48,681                                       | 33,173     | 1,597          | 10,552     | -           | -    | 3,359     |
| Total rentals                                     | 1,592,867                                    | 783,695    | 400,368        | 217,919    | 117,279     | -    | 73,606    |
| Tenant expense reimbursements                     | 237,945                                      | 125,921    | 27,242         | 71,926     | 4,988       | -    | 7,868     |
| Cleveland Medical Mart development project        | 108,203                                      | -          | -              | -          | 108,203     | -    | -         |
| Fee and other income:                             |  |            |                |            |             |      |           |
| BMS cleaning fees                                 | 46,479                                       | 66,913     | -              | -          | -           | -    | (20,434)  |
| Signage revenue                                   | 14,746                                       | 14,746     | -              | -          | -           | -    | -         |
| Management and leasing fees                       | 16,660                                       | 3,560      | 9,629          | 3,068      | 348         | -    | 55        |
| Lease termination fees                            | 12,478                                       | 9,176      | 3,013          | 289        | -           | -    | -         |
| Other income                                      | 21,450                                       | 3,391      | 15,316         | 1,172      | 1,791       | -    | (220)     |
| Total revenues                                    | 2,050,828                                    | 1,007,402  | 455,568        | 294,374    | 232,609     | -    | 60,875    |
| Operating expenses                                | 773,331                                      | 435,519    | 142,211        | 113,167    | 71,210      | -    | 11,224    |
| Depreciation and amortization                     | 373,380                                      | 165,031    | 96,940         | 57,472     | 21,594      | -    | 32,343    |
| General and administrative                        | 154,359                                      | 20,409     | 19,496         | 20,046     | 22,659      | -    | 71,749    |
| Cleveland Medical Mart development                |  |            |                |            |             |      |           |

Revenues

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|   |           |           |          |          |          |        |           |
|---|-----------|-----------|----------|----------|----------|--------|-----------|
| project   | 101,637   | -         | -        | -        | 101,637  | -      | -         |
| Acquisition related costs and tenant buy-outs   | 22,455    | 16,558    | -        | 35       | 3,040    | -      | 2,822     |
| Total expenses  | 1,425,162 | 637,517   | 258,647  | 190,720  | 220,140  | -      | 118,138   |
| Operating income (loss)   | 625,666   | 369,885   | 196,921  | 103,654  | 12,469   | -      | (57,263)  |
| Income applicable to Toys   | 80,794    | -         | -        | -        | -        | 80,794 | -         |
| Income (loss) from partially owned entities   | 55,035    | 13,320    | (6,038)  | 1,221    | 292      | -      | 46,240    |
| Income from Real Estate Fund  | 25,491    | -         | -        | -        | -        | -      | 25,491    |
| Interest and other investment income, net   | 95,086    | 3,169     | 119      | 1        | 1        | -      | 91,796    |
| Interest and debt expense   | (394,192) | (114,381) | (85,971) | (53,024) | (23,342) | -      | (117,474) |
| Net gain on disposition of wholly owned and partially owned assets                            | 7,975     | -         | -        | -        | -        | -      | 7,975     |
| Income (loss) before income taxes   | 495,855   | 271,993   | 105,031  | 51,852   | (10,580) | 80,794 | (3,235)   |
| Income tax expense  | (18,548)  | (1,637)   | (2,055)  | (5)      | (1,523)  | -      | (13,328)  |
| Income (loss) from continuing operations  | 477,307   | 270,356   | 102,976  | 51,847   | (12,103) | 80,794 | (16,563)  |
| Income (loss) from discontinued operations  | 165,706   | 398       | 51,274   | 26,010   | 88,365   | -      | (341)     |
| Net income (loss)   | 643,013   | 270,754   | 154,250  | 77,857   | 76,262   | 80,794 | (16,904)  |
| Less net (income) loss attributable to noncontrolling interests in: Consolidated subsidiaries | (20,643)  | (6,815)   | -        | 196      | -        | -      | (14,024)  |

Revenues

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|   |                          |                           |            |                           |           |            |                           |
|---|--------------------------|---------------------------|------------|---------------------------|-----------|------------|---------------------------|
| Operating Partnership, including unit distributions | (47,364)                 | -                         | -          | -                         | -         | -          | (47,364)                  |
| Net income (loss) attributable to Vornado           | 575,006                  | 263,939                   | 154,250    | 78,053                    | 76,262    | 80,794     | (78,292)                  |
| Interest and debt expense <sup>(2)</sup>            | 599,668                  | 132,248                   | 100,017    | 62,144                    | 32,025    | 121,546    | 151,688                   |
| Depreciation and amortization <sup>(2)</sup>        | 561,738                  | 181,611                   | 118,290    | 68,294                    | 34,632    | 101,862    | 57,049                    |
| Income tax expense <sup>(2)</sup>                   | 42,135                   | 1,644                     | 2,380      | 5                         | 2,211     | 29,914     | 5,981                     |
| EBITDA <sup>(1)</sup>                               | 1,778,547                | 579,442                   | 374,937    | 208,496                   | 145,130   | 334,116    | 136,426                   |
| Less EBITDA from discontinued operations            | (211,539) <sup>(3)</sup> | (710)                     | (60,220)   | (40,988)                  | (109,962) | -          | 341                       |
| EBITDA from continuing operations                   | \$ 1,567,008             | \$ 578,732 <sup>(4)</sup> | \$ 314,717 | \$ 167,508 <sup>(5)</sup> | \$ 35,168 | \$ 334,116 | \$ 136,767 <sup>(6)</sup> |

See notes on the following page.

**Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2012 and 2011 - 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 following table reconciles income from discontinued operations to EBITDA from discontinued operations.

**For the Nine Months Ended September  
30,**

| (Amounts in thousands)              | 2012       | 2011       |
|-------------------------------------|------------|------------|
| Income from discontinued operations | \$ 241,024 | \$ 165,706 |
| Interest and debt expense           | 11,415     | 17,917     |
| Depreciation and amortization       | 14,818     | 26,916     |
| Income taxes                        | 12,207     | 1,000      |
| EBITDA from discontinued operations | \$ 279,464 | \$ 211,539 |

- (4) The elements of "New York" EBITDA from continuing operations are summarized below.

**For the Nine Months Ended September  
30,**

| (Amounts in thousands) | 2012       | 2011        |
|------------------------|------------|-------------|
| Office                 | \$ 419,054 | \$ 399,182  |
| Retail                 | 135,399    | 121,136 (a) |
| Alexander's            | 39,477     | 40,032      |
| Hotel Pennsylvania     | 16,746     | 18,382      |
| Total New York         | \$ 610,676 | \$ 578,732  |

- (a) The EBITDA for the nine months ended September 30, 2011 is after a \$16,558 expense for the buy-out of below-market leases.

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

**For the Nine Months Ended September  
30,**

| (Amounts in thousands)  | 2012       | 2011       |
|-------------------------|------------|------------|
| Strip shopping centers  | \$ 125,072 | \$ 120,887 |
| Regional malls          | 47,277     | 46,621     |
| Total Retail properties | \$ 172,349 | \$ 167,508 |



**Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2012 and 2011 - continued****Notes to preceding tabular information - continued:**

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

| (Amounts in thousands)   | <b>For the Nine Months Ended September 30,</b> |             |
|--|--|-------------|
|  | <b>2012</b>                                    | <b>2011</b> |
| Our share of Real Estate Fund:   |  |             |
| Income before net realized/unrealized gains  | \$ 4,162                                       | \$ 2,550    |
| Net unrealized gains   | 8,384  | 4,802       |
| Net realized gains   | -  | 771         |
| Carried interest   | -  | 1,665       |
| Total  | 12,546   | 9,788       |
| LNR  | 46,006   | 38,569      |
| 555 California Street  | 31,406   | 32,608      |
| Lexington  | 24,780   | 27,970      |
| Other investments  | 24,954   | 30,352      |
|  | 139,692  | 139,287     |
| Corporate general and administrative expenses <sup>(a)</sup>   | (66,940)                                       | (62,964)    |
| Investment income and other, net <sup>(a)</sup>  | 28,865   | 37,284      |
| Fee income from Alexander's  | 5,617  | 5,545       |
| Loss from the mark-to-market of J.C. Penney derivative position  | (53,343)                                       | (27,136)    |
| Verde Realty impairment loss   | (4,936)  | -           |
| Acquisition costs  | (4,314)  | (2,822)     |
| Net gain on sale of residential condominiums   | 1,274  | 5,884       |
| Mezzanine loans loss reversal and net gain on disposition  | -  | 82,744      |
| Net gain resulting from Lexington's stock issuance   | -  | 9,760       |
| Real Estate Fund placement fees  | -  | (3,451)     |
| Net income attributable to noncontrolling interests in the Operating Partnership, including unit distributions | (40,595)                                       | (47,364)    |
|  | \$ 5,320                                       | \$ 136,767  |

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

**Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2012 and 2011 - continued****EBITDA by Region**

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, Retail Properties and Merchandise Mart segments.

| <b>Region:</b>  | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|---|--|-------------|
|   | <b>2012</b>  | <b>2011</b> |
| New York City metropolitan area                         | 65%  | 63%         |
| Washington, DC / Northern Virginia<br>metropolitan area | 26%  | 29%         |
| Chicago   | 4%   | 3%          |
| California  | 2%   | 2%          |
| Puerto Rico   | 2%   | 2%          |
| Other geographies                                       | 1%   | 1%          |
|   | 100%   | 100%        |

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**Results of Operations – Nine Months Ended September 30, 2012 Compared to September 30, 2011**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 \$2,078,487,000 for the nine months ended September 30, 2012, compared to \$2,050,828,000 in the prior year's nine months, an increase of \$27,659,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to:                       | Total      | New York | Washington, DC | Retail Properties | Merchandise Mart | Other   |
|---|------------|----------|----------------|-------------------|------------------|---------|
| <b>Property rentals:</b>                          |            |          |                |                   |                  |         |
| Acquisitions                                      | \$ 6,947   | \$ 2,507 | \$ 4,440       | \$ -              | \$ -             | \$ -    |
| Development (out of service)                      | (21,774)   | (4,528)  | (16,385)       | (861)             | -                | -       |
| Hotel Pennsylvania                                | 313        | 313      | -              | -                 | -                | -       |
| Trade Shows                                       | (5,059)    | -        | -              | -                 | (5,059)          | -       |
| Amortization of acquired below-market leases, net | (9,453)    | (9,397)  | (60)           | (904)             | -                | 908     |
| Leasing activity (see page 49)                    | 327        | 29,107   | (25,985)       | 4,016             | (3,953)          | (2,858) |
|   | (28,699)   | 18,002   | (37,990)       | 2,251             | (9,012)          | (1,950) |
| <b>Tenant expense reimbursements:</b>             |            |          |                |                   |                  |         |
| Acquisitions/development                          | (9,182)    | (3,923)  | 1,243          | (3,815)           | -                | (2,687) |
| Operations  | (4,476)    | (3,137)  | 1,986          | (3,196)           | (1,286)          | 1,157   |
|   | (13,658)   | (7,060)  | 3,229          | (7,011)           | (1,286)          | (1,530) |
| <b>Cleveland Medical Mart development project</b> | 75,811 (1) | -        | -              | -                 | 75,811 (1)       | -       |
| <b>Fee and other income:</b>                      |            |          |                |                   |                  |         |
| BMS cleaning fees                                 | 2,958      | 3,563    | -              | -                 | -                | (605)   |
| Signage revenue                                   | (494)      | (494)    | -              | -                 | -                | -       |
|   | (126)      | 477      | 153            | (428)             | (160)            | (168)   |

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|                                       |           |          |             |            |           |            |
|---------------------------------------|-----------|----------|-------------|------------|-----------|------------|
| Management and leasing fees           |           |          |             |            |           |            |
| Lease termination fees                | (11,306)  | (8,842)  | (2,757)     | (215)      | 508       | -          |
| Other income                          | 3,173     | 58       | 3,530       | 189        | (570)     | (34)       |
|                                       | (5,795)   | (5,238)  | 926         | (454)      | (222)     | (807)      |
| Total increase (decrease) in revenues | \$ 27,659 | \$ 5,704 | \$ (33,835) | \$ (5,214) | \$ 65,291 | \$ (4,287) |

(1) This increase in income is offset by an increase in development costs expensed in the period. See note (4) on page 70.

**Results of Operations – Nine Months Ended September 30, 2012 Compared to September 30, 2011 - continued**Expenses

Our expenses, which consist primarily of operating, depreciation and amortization and general and administrative expenses, were \$1,483,575,000 for the nine months ended September 30, 2012, compared to \$1,425,162,000 in the prior year's nine months, an increase of \$58,413,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to:                                | Total    | New York | Washington, DC | Retail Properties | Merchandise Mart | Other      |
|--|----------|----------|----------------|-------------------|------------------|------------|
| <b>Operating:</b>  |          |          |                |                   |                  |            |
| Acquisitions   | \$ 2,567 | \$ 2,607 | \$ 2,647       | \$ -              | \$ -             | \$ (2,687) |
| Development (out of service)                               | (6,226)  | (392)    | (3,458)        | (2,376)           | -                | -          |
| Non-reimbursable expenses, including bad debt reserves     | (13,287) | (4,052)  | (60)           | (2,943)           | (6,232)          | -          |
| Hotel Pennsylvania   | 1,735    | 1,735    | -              | -                 | -                | -          |
| Trade Shows  | (4,024)  | -        | -              | -                 | (4,024)          | -          |
| BMS expenses   | 2,418    | 3,023    | -              | -                 | -                | (605)      |
| Operations   | 7,504    | 9,470    | 2,583          | (3,060)           | (1,025)          | (464)      |
|  | (9,313)  | 12,391   | 1,712          | (8,379)           | (11,281)         | (3,756)    |
| <b>Depreciation and amortization:</b>                      |          |          |                |                   |                  |            |
| Acquisitions/development                                   | 13,542   | (891)    | 15,162         | (729)             | -                | -          |
| Operations   | 52       | 4,251    | (4,707)        | 87                | 730              | (309)      |
|  | 13,594   | 3,360    | 10,455         | (642)             | 730              | (309)      |
| <b>General and administrative:</b>                         |          |          |                |                   |                  |            |
| Mark-to-market of deferred compensation plan liability (1) | 3,765    | -        | -              | -                 | -                | 3,765      |

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|  |                       |                         |           |             |                        |                      |
|--|-----------------------|-------------------------|-----------|-------------|------------------------|----------------------|
| Real Estate Fund placement fees                      | (3,451)               | -                       | -         | -           | -                      | (3,451)              |
| Operations   | (3,531)               | 1,571                   | 353       | (1,243)     | (7,782) <sup>(2)</sup> | 3,570 <sup>(3)</sup> |
|  | (3,217)               | 1,571                   | 353       | (1,243)     | (7,782)                | 3,884                |
| <b>Cleveland Medical Mart development project</b>    | 75,490 <sup>(4)</sup> | -                       | -         | -           | 75,490 <sup>(4)</sup>  | -                    |
| <b>Acquisition related costs and tenant buy-outs</b> | (18,141)              | (16,558) <sup>(5)</sup> | -         | (35)        | (3,040)                | 1,492                |
| Total increase (decrease) in expenses                | \$ 58,413             | \$ 764                  | \$ 12,520 | \$ (10,299) | \$ 54,117              | \$ 1,311             |

(1) This increase in expense is entirely offset by a corresponding increase in income from the mark-to-market of the deferred compensation plan assets, a component of “interest and other investment income (loss), net” on our consolidated statements of income.

(2) Primarily from lower payroll costs due to a reduction in workforce.

(3) Primarily from higher payroll costs and stock based compensation.

(4) This increase in expense is offset by the increase in development revenue in the period. See note (1) on page 69.

(5) Represents the buy-out of below-market leases in the prior year.

**Results of Operations – Nine Months Ended September 30, 2012 Compared to September 30, 2011 - continued**Income Applicable to Toys

In the nine months ended September 30, 2012, we recognized net income of \$88,696,000 from our investment in Toys, comprised of \$81,667,000 for our 32.5% share of Toys' net income (\$99,649,000 before our share of Toys' income tax expense) and \$7,029,000 of management fees. In the nine months ended September 30, 2011, we recognized net income of \$80,794,000 from our investment in Toys, comprised of \$74,135,000 for our 32.7% share of Toys' net income (\$104,049,000 before our share of Toys' income tax expense) and \$6,659,000 of management fees.

Income from Partially Owned Entities

Summarized below are the components of income (loss) from partially owned entities for the nine months ended September 30, 2012 and 2011.

| (Amounts in thousands)  | Percentage<br>Ownership at<br>September 30,<br>2012 | For the Nine Months Ended<br>September 30, |           |
|---|---|--|-----------|
|   |   | 2012                                       | 2011      |
| <b>Equity in Net Income (Loss):</b>                                   |   |  |           |
| Alexander's   | 32.4%   | \$ 24,827                                  | \$ 24,052 |
| Lexington <sup>(1)</sup>  | 11.8%   | 371  | 10,209    |
| LNR <sup>(2)</sup>  | 26.2%   | 39,319                                     | 39,913    |
| India real estate ventures  | 4.0%-36.5%  | (4,526)                                    | (692)     |
| Partially owned office buildings:                                     |   |  |           |
| 280 Park Avenue (acquired in May<br>2011)                             | 49.5%   | (9,267)                                    | (8,645)   |
| Warner Building <sup>(3)</sup>  | 55.0%   | (7,438)                                    | (15,330)  |
| 666 Fifth Avenue Office<br>Condominium (acquired in<br>December 2011) | 49.5%   | 5,244                                      | -         |
| 330 Madison Avenue  | 25.0%   | 2,036                                      | 1,440     |
| 1101 17th Street  | 55.0%   | 1,920                                      | 2,094     |
|   | 30.3%   | 890  | (1,347)   |

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|   |             |           |           |
|---|-------------|-----------|-----------|
| One Park Avenue (acquired in March 2011)                                    |             |           |           |
| West 57th Street Properties   | 50.0%       | 732       | 634       |
| Rosslyn Plaza   | 43.7%-50.4% | 99        | 2,160     |
| Fairfax Square  | 20.0%       | (85)      | 7         |
| Other partially owned office buildings                                      | Various     | 1,587     | 5,165     |
| Other investments:  |             |           |           |
| Verde Realty Operating Partnership (4)                                      | 8.3%        | (6,000)   | 1,204     |
| Independence Plaza Partnership (mezzanine position) (acquired in June 2011) | 51.0%       | 5,243     | 1,811     |
| Monmouth Mall   | 50.0%       | 1,007     | 1,588     |
| Downtown Crossing, Boston   | 50.0%       | (872)     | (1,156)   |
| Other investments   | Various     | (1,596)   | (8,072)   |
|   |             | \$ 53,491 | \$ 55,035 |

- (1) 2011 includes a \$9,760 net gain resulting from Lexington's stock issuance.
- (2) 2011 includes \$8,977 for our share of a tax settlement gain and \$6,020 of net gains from asset sales.
- (3) 2011 includes \$9,022 for our share of expense, primarily for straight-line reserves and the write-off of tenant improvements in connection with a tenant's bankruptcy at the Warner Building.
- (4) In the third quarter of 2012, we converted our 2,015,151 units in Verde Realty Operating Partnership into 2,015,151 common shares of Verde Realty ("Verde"). Pursuant to a merger agreement which was approved by Verde shareholders on September 14, 2012, we accepted an offer to receive cash of \$13.85 per share, or \$27,910 in the aggregate; accordingly, we recognized a \$4,936 impairment loss in the third quarter.



**Results of Operations – Nine Months Ended September 30, 2012 Compared to September 30, 2011 - continued**Income from Real Estate Fund

Below are the components of the income from our Real Estate Fund for the nine months ended September 30, 2012 and 2011.

| (Amounts in thousands)  | <b>For the Nine Months Ended September 30,</b> |             |
|---|--|-------------|
|   | <b>2012</b>                                    | <b>2011</b> |
| Operating income  | \$ 4,035                                       | \$ 3,197    |
| Net realized gain   | -  | 3,085       |
| Net unrealized gains  | 33,537   | 19,209      |
| Income from Real Estate Fund  | 37,572   | 25,491      |
| Less (income) attributable to noncontrolling interests              | (25,026)                                       | (15,703)    |
| Income from Real Estate Fund attributable to Vornado <sup>(1)</sup> | \$ 12,546                                      | \$ 9,788    |

(1) Excludes management, leasing and development fees of \$2,025 and \$1,803 for the nine months ended September 30, 2012 and 2011, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

Interest and Other Investment Income (Loss), net

Interest and other investment income (loss), net (comprised primarily of the mark-to-market of derivative positions in marketable equity securities, interest income on mezzanine loans receivable and other interest and dividend income) was a loss of \$22,984,000 in the nine months ended September 30, 2012, compared to income of \$95,086,000 in the prior year's nine months, a decrease in income of \$118,070,000. This decrease resulted from:

| (Amounts in thousands)   |             |
|--|-------------|
| Mezzanine loan loss reversal and net gain on disposition in 2011   | \$ (82,744) |
| J.C. Penney derivative position (\$53,343 mark-to-market loss in 2012, compared to a \$27,136 mark-to-market loss in 2011) | (26,207)    |
| Lower dividends and interest on marketable securities  | (11,848)    |

|   |   |              |
|---|---|--------------|
| Increase in the value of investments in our deferred compensation plan (offset by a corresponding |   |              |
|   | increase in the liability for plan assets in general and administrative expenses) | 3,765        |
| Other, net  |   | (1,036)      |
|   |   | \$ (118,070) |

### Interest and Debt Expense

Interest and debt expense was \$377,600,000 in the nine months ended September 30, 2012, compared to \$394,192,000 in the prior year's nine months, a decrease of \$16,592,000. This decrease was primarily due to (i) \$19,175,000 from the redemption of our exchangeable and convertible senior debentures in April 2012 and November 2011, respectively, (ii) \$8,871,000 from the refinancing of 350 Park Avenue in January 2012 (of which \$5,414,000 was due to a lower rate and \$3,457,000 was due to a lower outstanding loan balance), and (iii) \$7,884,000 of capitalized interest, partially offset by (iv) \$15,136,000 from the issuance of \$400,000,000 of senior unsecured notes in November 2011 and (v) \$4,331,000 from the refinancing of 100 West 33<sup>rd</sup> Street in March 2012.

### Net Gain on Disposition of Wholly Owned and Partially Owned Assets

Net gain on disposition of wholly owned and partially owned assets was \$4,856,000 in the nine months ended September 30, 2012, compared to \$7,975,000, in the prior year's nine months and resulted primarily from the sale of marketable securities and residential condominiums.

### Income Tax Expense

Income tax expense was \$17,319,000 in the nine months ended September 30, 2012, compared to \$18,548,000 in the prior year's nine months, a decrease of \$1,229,000. This decrease resulted primarily from the true-up of estimated tax liabilities of our taxable REIT subsidiaries.

**Results of Operations – Nine Months Ended September 30, 2012 Compared to September 30, 2011 - 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 nine months ended September 30, 2012 and 2011.

| (Amounts in thousands)                                   | For the Nine Months Ended September 30, |            |
|--|---|------------|
|  | 2012                                    | 2011       |
| Total revenues   | \$ 112,585                              | \$ 160,747 |
| Total expenses   | 81,508                                  | 130,571    |
|  | 31,077                                  | 30,176     |
| Net gains on sale of real estate                         | 203,801                                 | 51,623     |
| Gain on sale of Canadian Trade Shows, net of \$11,448 of |   |            |
| income taxes   | 19,657                                  | -          |
| Impairment losses  | (13,511)                                | -          |
| Net gain on extinguishment of High Point debt            | -                                       | 83,907     |
| Income from discontinued operations                      | \$ 241,024                              | \$ 165,706 |

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was \$30,928,000 in the nine months ended September 30, 2012, compared to \$20,643,000 in the prior year’s nine months, an increase of \$10,285,000. This increase resulted primarily from a \$9,323,000 increase in income allocated to the noncontrolling interests of our Real Estate Fund.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership, including Unit Distributions

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Net income attributable to noncontrolling interests in the Operating Partnership, including unit distributions for the nine months ended September 30, 2012 and 2011 is primarily comprised of allocations of income to redeemable noncontrolling interests of \$31,445,000 and \$36,385,000, respectively, and preferred unit distributions of the Operating Partnership of \$9,150,000 and \$10,979,000, respectively. The decrease of \$4,940,000 in allocations of income to redeemable noncontrolling interests resulted primarily from lower net income subject to allocation to unitholders. The decrease of \$1,829,000 in preferred unit distributions of the Operating Partnership 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 \$56,187,000 in the nine months ended September 30, 2012, compared to \$47,743,000 in the prior year's nine months, an increase of \$8,444,000. This increase resulted from the issuance of \$246,000,000 of 6.875% Series J cumulative redeemable preferred shares in April 2011 and \$300,000,000 of 5.70% of Series K cumulative redeemable preferred shares in July 2012, partially offset by the redemption of \$75,000,000 of 7.0% Series E cumulative redeemable preferred shares in August 2012.

#### Discount on Preferred Unit Redemption

In the nine months ended September 30, 2012, we recognized a \$11,700,000 discount from the redemption of all of the 7.0% Series D-10 and 6.75% Series D-14 cumulative redeemable preferred units, compared to a \$5,000,000 discount in the prior year's nine months from the redemption of Series D-11 cumulative redeemable preferred units.

**Results of Operations – Nine Months Ended September 30, 2012 Compared to September 30, 2011 - continued**Same Store EBITDA

Same store EBITDA represents EBITDA from property level operations which are owned by us in both the current and prior year reporting periods. Same store EBITDA excludes segment-level overhead expenses, which are expenses that we do not consider to be property-level expenses, as well as other non-operating items. We 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 the same store EBITDA results on a GAAP and cash basis for each of our segments for the nine months ended September 30, 2012, compared to the nine months ended September 30, 2011.

|   | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Retail<br/>Properties</b> | <b>Merchandise<br/>Mart</b> |
|---|-----------------|---------------------------|------------------------------|-----------------------------|
| (Amounts in thousands)  |                 |                           |                              |                             |
| EBITDA for the nine months ended September 30, 2012   | \$ 610,036      | \$ 414,391                | \$ 220,600                   | \$ 133,486                  |
| Add-back: non-property level overhead expenses included above   | 21,980          | 19,849                    | 18,803                       | 14,877                      |
| Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses                             | (39,254)        | (140,744)                 | (54,537)                     | (86,904)                    |
| GAAP basis same store EBITDA for the nine months ended September 30, 2012   | 592,762         | 293,496                   | 184,866                      | 61,459                      |
| Less: Adjustments for straight-line rents, amortization of below-market leases, net, and other non-cash adjustments | (73,249)        | (4,754)                   | (11,259)                     | (580)                       |
| Cash basis same store EBITDA for the nine months  |                 |                           |                              |                             |

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|  |                          |            |             |            |            |
|--|--------------------------|------------|-------------|------------|------------|
|  | ended September 30, 2012 | \$ 519,513 | \$ 288,742  | \$ 173,607 | \$ 60,879  |
| EBITDA for the nine months ended September 30, 2011  |                          | \$ 579,442 | \$ 374,937  | \$ 208,496 | \$ 145,130 |
| Add-back: non-property level overhead expenses included above  |                          | 20,409     | 19,496      | 20,046     | 22,659     |
| Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses  |                          | (20,536)   | (78,976)    | (42,603)   | (108,006)  |
| GAAP basis same store EBITDA for the nine months ended September 30, 2011  |                          | 579,315    | 315,457     | 185,939    | 59,783     |
| Less: Adjustments for straight-line rents, amortization of below-market leases, net, and other non-cash adjustments                            |                          | (67,404)   | (8,332)     | (11,426)   | 1,261      |
| Cash basis same store EBITDA for the nine months ended September 30, 2011  |                          | \$ 511,911 | \$ 307,125  | \$ 174,513 | \$ 61,044  |
| Increase (decrease) in GAAP basis same store EBITDA for the nine months ended September 30, 2012 over the nine months ended September 30, 2011 |                          | \$ 13,447  | \$ (21,961) | \$ (1,073) | \$ 1,676   |
| Increase (decrease) in Cash basis same store EBITDA for the nine months ended September 30, 2012 over the nine months ended September 30, 2011 |                          | \$ 7,602   | \$ (18,383) | \$ (906)   | \$ (165)   |
| % increase (decrease) in GAAP basis same store EBITDA  |                          | 2.3%       | (7.0%)      | (0.6%)     | 2.8%       |
| % increase (decrease) in Cash basis same store EBITDA  |                          | 1.5%       | (6.0%)      | (0.5%)     | (0.3%)     |

## SUPPLEMENTAL INFORMATION

**Reconciliation of EBITDA to Same Store EBITDA - Three Months Ended September 30, 2012 vs. June 30, 2012**

Below are the same store EBITDA results on a GAAP and cash basis for each of our segments for the three months ended September 30, 2012, compared to the three months ended June 30, 2012.

|   | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Retail<br/>Properties</b> | <b>Merchandise<br/>Mart</b> |
|---|-----------------|---------------------------|------------------------------|-----------------------------|
| (Amounts in thousands)  |                 |                           |                              |                             |
| EBITDA for the three months ended September 30, 2012  | \$ 206,663      | \$ 217,567                | \$ 73,505                    | \$ 44,942                   |
| Add-back: non-property level overhead expenses included above   | 6,739           | 6,668                     | 6,103                        | 4,120                       |
| Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses                             | (9,119)         | (128,541)                 | (17,346)                     | (32,205)                    |
| GAAP basis same store EBITDA for the three months ended September 30, 2012  | 204,283         | 95,694                    | 62,262                       | 16,857                      |
| Less: Adjustments for straight-line rents, amortization of below-market leases, net, and other non-cash adjustments | (24,728)        | (1,943)                   | (3,830)                      | 171                         |
| Cash basis same store EBITDA for the three months ended September 30, 2012  | \$ 179,555      | \$ 93,751                 | \$ 58,432                    | \$ 17,028                   |
| EBITDA for the three months ended June 30, 2012 <sup>(1)</sup>  | \$ 210,421      | \$ 96,312                 | \$ 76,352                    | \$ 10,939                   |
| Add-back: non-property level overhead expenses included above   | 6,654           | 6,231                     | 6,367                        | 4,848                       |
| Less: EBITDA from acquisitions, dispositions and other non-operating income or expenses                             | (8,239)         | (4,743)                   | (20,543)                     | 6,448                       |
| Revenues  |                 |                           |                              | 151                         |

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|   |            |            |           |            |
|---|------------|------------|-----------|------------|
| GAAP basis same store EBITDA for the three months ended June 30, 2012   | 208,836    | 97,800     | 62,176    | 22,235     |
| Less: Adjustments for straight-line rents, amortization of below-market leases, net, and other non-cash adjustments                         | (30,345)   | (1,883)    | (4,313)   | (83)       |
| Cash basis same store EBITDA for the three months ended June 30, 2012   | \$ 178,491 | \$ 95,917  | \$ 57,863 | \$ 22,152  |
| (Decrease) increase in GAAP basis same store EBITDA for the three months ended September 30, 2012 over the three months ended June 30, 2012 | \$ (4,553) | \$ (2,106) | \$ 86     | \$ (5,378) |
| Increase (decrease) in Cash basis same store EBITDA for the three months ended September 30, 2012 over the three months ended June 30, 2012 | \$ 1,064   | \$ (2,166) | \$ 569    | \$ (5,124) |
| % (decrease) increase in GAAP basis same store EBITDA   | (2.2%)     | (2.2%)     | 0.1%      | (24.2%)    |
| % increase (decrease) in Cash basis same store EBITDA   | 0.6%       | (2.3%)     | 1.0%      | (23.1%)    |

(1) Below is the reconciliation of net income to EBITDA for the three months ended June 30, 2012.

|   |                 | <b>Washington,<br/>DC</b> | <b>Retail<br/>Properties</b> | <b>Merchandise<br/>Mart</b> |
|---|-----------------|---------------------------|------------------------------|-----------------------------|
| (Amounts in thousands)  | <b>New York</b> |                           |                              |                             |
| Net income attributable to Vornado for the three months ended June 30, 2012 | \$ 99,231       | \$ 23,073                 | \$ 34,119                    | \$ (8,888)                  |
| Interest and debt expense   | 46,413          | 32,549                    | 20,102                       | 8,786                       |
| Depreciation and amortization   | 63,664          | 39,656                    | 22,131                       | 9,826                       |
| Income tax expense  | 1,113           | 1,034                     | -                            | 1,215                       |
| EBITDA for the three months ended June 30, 2012                             | \$ 210,421      | \$ 96,312                 | \$ 76,352                    | \$ 10,939                   |

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## **Related Party Transactions**

On March 8, 2012, Steven Roth, the Chairman of our Board of Trustees, repaid his \$13,122,500 outstanding loan from the Company.

## **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 \$314,371,000 for acquisitions, including \$78,592,750 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.

Details of our 2012 Investing and Financing Activities are provided in the “Overview” of Management’s Discussion and Analysis of Financial Condition on page 45.

*Cash Flows for the Nine Months Ended September 30, 2012*

Our cash and cash equivalents were \$465,884,000 at September 30, 2012, a \$140,669,000 decrease over the balance at December 31, 2011. Our consolidated outstanding debt was \$9,810,578,000 at September 30, 2012, a \$258,725,000 decrease over the balance at December 31, 2011. As of September 30, 2012 and December 31, 2011, \$600,000,000 and \$138,000,000, respectively, was outstanding under our revolving credit facilities. During the remainder of 2012 and 2013, \$19,427,000 and \$1,130,353,000, respectively, of our outstanding debt matures; we may refinance this maturing debt as it comes due or choose to repay it using a portion of our \$2,365,884,000 of available capacity (comprised of \$465,884,000 of cash and cash equivalents and \$1,900,000,000 of availability under our revolving credit facilities).

Cash flows provided by operating activities of \$510,646,000 was comprised of (i) net income of \$602,648,000, (ii) return of capital from Real Estate Fund investments of \$61,052,000, (iii) distributions of income from partially owned entities of \$59,322,000, and (iv) \$14,489,000 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, partially offset by (v) the net change in operating assets and liabilities of \$226,865,000, including \$163,307,000 related to Real Estate Fund investments.

Net cash provided by investing activities of \$34,012,000 was comprised of (i) \$408,856,000 of proceeds from sales of real estate and related investments, (ii) \$89,850,000 from the return of the J.C. Penney derivative collateral, (iii) \$58,460,000 of proceeds from the sale of marketable securities, (iv) \$52,504,000 of proceeds from the sale of the Canadian Trade Shows, (v) \$26,665,000 of capital distributions from partially owned entities, (vi) \$13,123,000 of proceeds from the repayment of loan to officer, and (vii) \$2,379,000 of proceeds from repayments of mezzanine loans, partially offset by (viii) \$138,060,000 of additions to real estate, (ix) \$121,117,000 for the funding of the J.C. Penney derivative collateral, (x) \$116,264,000 of investments in partially owned entities, (xi) \$106,502,000 of development costs and construction in progress, (xii) \$73,069,000 of acquisitions of real estate and other, and (xiii) \$62,813,000 of changes in restricted cash.

Net cash used in financing activities of \$685,327,000 was comprised of (i) \$2,070,295,000 for the repayments of borrowings, (ii) \$384,353,000 of dividends paid on common shares, (iii) \$243,300,000 for purchases of outstanding preferred units and shares, (iv) \$80,994,000 of distributions to noncontrolling interests, (v) \$54,034,000 of dividends paid on preferred shares, (vi) \$30,034,000 for the repurchase of shares related to stock compensation agreements and related tax holdings, and (vii) \$17,417,000 of debt issuance and other costs, partially offset by (viii) \$1,773,000,000 of proceeds from borrowings, (ix) \$291,144,000 of proceeds from the issuance of preferred shares, (x) \$120,746,000 of contributions from noncontrolling interests in consolidated subsidiaries, and (xi) \$10,210,000 of proceeds from exercise of employee share options.

**Liquidity and Capital Resources – continued***Capital Expenditures in the nine months ended September 30, 2012*

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 expenditures 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. Below is a summary of capital expenditures, leasing commissions and a reconciliation of total expenditures on an accrual basis to the cash expended in the nine months ended September 30, 2012.

| (Amounts in thousands)   | <b>Total</b> | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Retail<br/>Properties</b> | <b>Merchandise<br/>Mart</b> | <b>Other</b> |
|--|--------------|-----------------|---------------------------|------------------------------|-----------------------------|--------------|
| Expenditures to maintain assets                                    | \$ 37,829    | \$ 17,925       | \$ 10,758                 | \$ 2,497                     | \$ 3,140                    | \$ 3,509     |
| Tenant improvements  | 150,099      | 55,628          | 41,874                    | 6,682                        | 45,915                      | -            |
| Leasing commissions  | 48,900       | 21,536          | 10,607                    | 1,971                        | 14,786                      | -            |
| Non-recurring capital expenditures                                 | 5,227        | 4,240           | -                         | -                            | -                           | 987          |
| Total capital expenditures and leasing commissions (accrual basis) | 242,055      | 99,329          | 63,239                    | 11,150                       | 63,841                      | 4,496        |
| Adjustments to reconcile to cash basis:                            |              |                 |                           |                              |                             |              |
| Expenditures in the current year applicable to prior periods       | 74,087       | 35,008          | 11,811                    | 6,868                        | 15,905                      | 4,495        |
| Expenditures to be made in future periods for the current period   | (157,152)    | (66,954)        | (38,221)                  | (5,731)                      | (46,246)                    | -            |
| Total capital expenditures and leasing commissions (cash basis)    | \$ 158,990   | \$ 67,383       | \$ 36,829                 | \$ 12,287                    | \$ 33,500                   | \$ 8,991     |
| <i>Tenant improvements and leasing commissions:</i>                |              |                 |                           |                              |                             |              |
| <i>Per square foot per annum</i>                                   | \$ 4.62      | \$ 5.43         | \$ 5.18                   | \$ 1.05                      | \$ 5.72 <sup>(1)</sup>      | \$ -         |

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|  |       |      |       |      |       |   |
|--|-------|------|-------|------|-------|---|
| <i>Percentage of initial rent</i>  | 11.0% | 8.5% | 12.9% | 5.4% | 16.4% | - |
| (1) Includes \$6.50 per square foot per annum of tenant improvements and leasing commissions in connection with a 572,000 square foot lease. |       |      |       |      |       |   |

*Development and Redevelopment Expenditures in the nine months ended September 30, 2012*

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 nine months ended September 30, 2012.

| (Amounts in thousands)                                   | Total      | New York  | Washington,<br>DC | Retail     | Merchandise | Other    |
|--|------------|-----------|-------------------|------------|-------------|----------|
|  |            |           |                   | Properties | Mart        |          |
| Crystal Square 5   | \$ 12,773  | \$ -      | \$ 12,773         | \$ -       | \$ -        | \$ -     |
| 1290 Avenue of the Americas                              | 11,613     | 11,613    | -                 | -          | -           | -        |
| 510 Fifth Avenue   | 10,203     | 10,203    | -                 | -          | -           | -        |
| Bergen Town Center                                       | 9,881      | -         | -                 | 9,881      | -           | -        |
| Springfield Mall   | 8,801      | -         | -                 | 8,801      | -           | -        |
| Marriott Marquis Times Square -<br>retail<br>and signage | 5,970      | 5,970     | -                 | -          | -           | -        |
| Beverly Connection                                       | 5,539      | -         | -                 | 5,539      | -           | -        |
| Amherst, New York  | 3,439      | -         | -                 | 3,439      | -           | -        |
| 1851 South Bell Street (1900<br>Crystal Drive)           | 2,840      | -         | 2,840             | -          | -           | -        |
| Crystal Plaza 5  | 2,021      | -         | 2,021             | -          | -           | -        |
| Poughkeepsie, New York                                   | 1,529      | -         | -                 | 1,529      | -           | -        |
| Crystal City Hotel                                       | 1,479      | -         | 1,479             | -          | -           | -        |
| Green Acres Mall   | 1,205      | -         | -                 | 1,205      | -           | -        |
| Other  | 29,209     | 9,581     | 6,216             | 5,540      | 20          | 7,852    |
|  | \$ 106,502 | \$ 37,367 | \$ 25,329         | \$ 35,934  | \$ 20       | \$ 7,852 |

As of September 30, 2012, the estimated costs to complete the above projects are approximately \$707,000,000. In addition, we plan to redevelop our 220 Central Park South property into a new residential tower. The estimated cost of this project is approximately \$425,000,000, which is expected to be substantially funded by project financing. There can be no assurance that these projects will commence, or, if commenced, be completed on schedule or within budget.

**Liquidity and Capital Resources – continued**

*Cash Flows for the Nine Months Ended September 30, 2011*

Our cash and cash equivalents were \$585,183,000 at September 30, 2011, a \$105,606,000 decrease over the balance at December 31, 2010. This decrease was primarily due to cash flows from financing activities, partially offset by cash flows from operating activities, as discussed below.

Cash flows provided by operating activities of \$566,671,000 was comprised of (i) net income of \$643,013,000 and (ii) distributions of income from partially owned entities of \$75,612,000, partially offset by (iii) \$7,148,000 of non-cash adjustments, which include depreciation and amortization expense, the effect of straight-lining of rental income and equity in net income of partially owned entities, and (iv) the net change in operating assets and liabilities of \$144,806,000, including \$97,785,000 related to Real Estate Fund investments.

Net cash used in investing activities of \$1,675,000 was comprised of (i) \$440,865,000 of investments in partially owned entities, (ii) \$109,963,000 of additions to real estate, (iii) \$52,816,000 of development costs and construction in progress, (iv) \$44,215,000 of investments in mezzanine loans receivable and other, and (v) \$33,850,000 for the funding of J.C. Penney derivative collateral, partially offset by (vi) \$274,283,000 of capital distributions from partially owned entities, (vii) \$135,762,000 of proceeds from sales of real estate and related investments, (viii) changes in restricted cash of \$121,463,000, (ix) \$100,525,000 of proceeds from sales and repayments of mezzanine loans, (x) \$28,700,000 from the return of the J.C. Penney derivative collateral and (xi) \$19,301,000 of proceeds from sales of marketable securities.

Net cash used in financing activities of \$670,602,000 was comprised of (i) \$2,666,610,000 for the repayments of borrowings, (ii) \$381,382,000 of dividends paid on common shares, (iii) \$77,330,000 of distributions to noncontrolling interests, (iv) \$43,675,000 of dividends paid on preferred shares, (v) \$28,614,000 of debt issuance and other costs, (vi) \$28,000,000 for the purchase of outstanding preferred units and shares, and (vii) \$747,000 for the repurchase of shares related to stock compensation agreements and related tax holdings, partially offset by (viii) \$2,184,167,000 of proceeds from borrowings, (ix) \$239,037,000 of proceeds from the issuance of Series J preferred shares, (x) \$109,605,000 of contributions from noncontrolling interests and (xi) \$22,947,000 of proceeds received from exercise of employee share options.



**Liquidity and Capital Resources – continued***Capital Expenditures in the nine months ended September 30, 2011*

| (Amounts in thousands)   | <b>Total</b> | <b>New York</b> | <b>Washington,</b> |                          |                         |              |
|--|--------------|-----------------|--------------------|--------------------------|-------------------------|--------------|
|  |              |                 | <b>DC</b>          | <b>Retail Properties</b> | <b>Merchandise Mart</b> | <b>Other</b> |
| Expenditures to maintain assets                                    | \$ 31,347    | \$ 12,355       | \$ 8,760           | \$ 4,168                 | \$ 3,495                | \$ 2,569     |
| Tenant improvements  | 82,537       | 48,105          | 18,671             | 4,734                    | 10,705                  | 322          |
| Leasing commissions  | 23,762       | 16,567          | 4,182              | 1,315                    | 1,575                   | 123          |
| Non-recurring capital expenditures                                 | 17,044       | 15,195          | -                  | -                        | -                       | 1,849        |
| Total capital expenditures and leasing commissions (accrual basis) | 154,690      | 92,222          | 31,613             | 10,217                   | 15,775                  | 4,863        |
| Adjustments to reconcile to cash basis:                            |              |                 |                    |                          |                         |              |
| Expenditures in the current year applicable to prior periods       | 69,717       | 32,564          | 11,363             | 8,268                    | 11,993                  | 5,529        |
| Expenditures to be made in future periods for the current period   | (97,374)     | (59,499)        | (17,794)           | (5,726)                  | (9,711)                 | (4,644)      |
| Total capital expenditures and leasing commissions (cash basis)    | \$ 127,033   | \$ 65,287       | \$ 25,182          | \$ 12,759                | \$ 18,057               | \$ 5,748     |
| <i>Tenant improvements and leasing commissions:</i>                |              |                 |                    |                          |                         |              |
| <i>Per square foot per annum</i>                                   | \$ 3.59      | \$ 5.16         | \$ 4.38            | \$ 0.65                  | \$ 3.53                 | \$ -         |
| <i>Percentage of initial rent</i>                                  | 8.6%         | 8.5%            | 10.9%              | 3.0%                     | 10.6%                   | -            |

*Development and Redevelopment Expenditures in the nine months ended September 30, 2011*

|          | <b>Retail</b> | <b>Merchandise</b> |
|----------|---------------|--------------------|
| Revenues |               |                    |

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| (Amounts in thousands)   | <b>Total</b> | <b>New York</b> | <b>Washington,<br/>DC</b> | <b>Properties</b> | <b>Mart</b> | <b>Other</b> |
|--------------------------|--------------|-----------------|---------------------------|-------------------|-------------|--------------|
| Bergen Town Center       | \$ 17,145    | \$ -            | \$ -                      | \$ 17,145         | \$ -        | \$ -         |
| Green Acres Mall         | 3,443        | -               | -                         | 3,443             | -           | -            |
| 510 Fifth Avenue         | 2,367        | 2,367           | -                         | -                 | -           | -            |
| West End 25              | 1,897        | -               | 1,897                     | -                 | -           | -            |
| North Bergen, New Jersey | 1,746        | -               | -                         | 1,746             | -           | -            |
| Crystal City Hotel       | 1,556        | -               | 1,556                     | -                 | -           | -            |
| Crystal Square           | 1,502        | -               | 1,502                     | -                 | -           | -            |
| Crystal Plaza 5          | 1,346        | -               | 1,346                     | -                 | -           | -            |
| Poughkeepsie, New York   | 936          | -               | -                         | 936               | -           | -            |
| Other                    | 20,878       | 4,203           | 7,249                     | 3,890             | 412         | 5,124        |
|                          | \$ 52,816    | \$ 6,570        | \$ 13,550                 | \$ 27,160         | \$ 412      | \$ 5,124     |

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## Liquidity and Capital Resources – continued

### *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*

Our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of September 30, 2012, the aggregate dollar amount of these guarantees and master leases is approximately \$267,090,000.

At September 30, 2012, \$22,576,000 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.

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.

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 September 30, 2012, our subsidiaries have funded \$1,100,000 of the commitment.

As of September 30, 2012, we expect to fund additional capital to certain of our partially owned entities aggregating approximately \$244,463,000.

## Liquidity and Capital Resources – continued

### *Litigation*

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, including the matter referred to below, is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

In 2003, Stop & Shop filed an action against us in the New York Supreme Court, claiming that we had no right to reallocate and therefore continue to collect \$5,000,000 of annual rent from Stop & Shop pursuant to a Master Agreement and Guaranty, because of the expiration of the leases to which the annual rent was previously allocated. Stop & Shop asserted that an order of the Bankruptcy Court for the Southern District of New York, as modified on appeal by the District Court, froze our right to reallocate and effectively terminated our right to collect the annual rent from Stop & Shop. We asserted a counterclaim seeking a judgment for all the unpaid annual rent accruing through the date of the judgment and a declaration that Stop & Shop will continue to be liable for the annual rent as long as any of the leases subject to the Master Agreement and Guaranty remain in effect. After summary judgment motions by both sides were denied, the parties conducted discovery. A trial was held in November 2010. On November 7, 2011, the Court determined that we have a continuing right to allocate the annual rent to unexpired leases covered by the Master Agreement and Guaranty, and directed entry of a judgment in our favor ordering Stop & Shop to pay us the unpaid annual rent accrued through February 28, 2011 in the amount of \$37,422,000, a portion of the annual rent due from March 1, 2011 through the date of judgment, interest, and attorneys' fees. On December 16, 2011, a money judgment based on the Court's decision was entered in our favor in the amount of \$56,597,000 (including interest and costs). The amount for attorneys' fees is being addressed in a proceeding before a special referee. Stop & Shop appealed the Court's decision and the judgment, and has posted a bond to secure payment of the judgment. On January 12, 2012, we commenced a new action against Stop & Shop seeking recovery of \$2,500,000 of annual rent not included in the money judgment, plus additional annual rent as it accrues. A motion by Stop & Shop to dismiss the new action was denied on July 19, 2012. Stop & Shop's appeal of that ruling was heard on October 18, 2012, and a decision has not yet been issued.

As of September 30, 2012, we have a \$46,400,000 receivable from Stop & Shop, excluding amounts due to us for interest and costs resulting from the Court's judgment. As a result of Stop & Shop appealing the Court's decision, we believe, after consultation with counsel, that the maximum reasonably possible loss is up to the total amount of the receivable of \$46,400,000.



**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 18 – *Income per Share*, in the notes to our consolidated financial statements on page 31 of this Quarterly Report on Form 10-Q.

*FFO for the Three and Nine Months Ended September 30, 2012 and 2011*

FFO attributable to common shareholders plus assumed conversions was \$251,019,000, or \$1.34 per diluted share for the three months ended September 30, 2012, compared to \$195,125,000, or \$1.05 per diluted share, for the prior year’s quarter. FFO attributable to common shareholders plus assumed conversions was \$767,347,000, or \$4.07 per diluted share for the nine months ended September 30, 2012, compared to \$951,054,000, or \$4.96 per diluted share, for the prior year’s nine months. Details of certain items that affect comparability are discussed in the financial results summary of our “Overview.”

| (Amounts in thousands, except per share amounts)                                      | <b>For The Three Months</b>     |             | <b>For The Nine Months</b>      |             |
|---|---------------------------------|-------------|---------------------------------|-------------|
|   | <b>Ended September 30, 2012</b> | <b>2011</b> | <b>Ended September 30, 2012</b> | <b>2011</b> |
| <b>Reconciliation of our net income to FFO:</b>                                       |                                 |             |                                 |             |
| Net income attributable to Vornado  | \$ 241,306                      | \$ 53,762   | \$ 531,125                      | \$ 575,006  |
| Depreciation and amortization of real property  | 118,717                         | 128,811     | 377,338                         | 377,458     |
| Net gains on sale of real estate  | (131,088)                       | -           | (203,801)                       | (51,623)    |
| Real estate impairment losses   | -                               | -           | 13,511                          | -           |
| Proportionate share of adjustments to equity in net income of Toys, to arrive at FFO: |                                 |             |                                 |             |
|   | 16,905                          | 17,947      | 50,706                          | 52,844      |

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Depreciation and amortization of real property  |            |            |            |            |
| Net gains on sale of real estate  | -          | -          | -          | (491)      |
| Real estate impairment losses   | -          | -          | 8,394      | -          |
| Income tax effect of above adjustments  | (5,917)    | (6,280)    | (20,765)   | (18,320)   |
| Proportionate share of adjustments to equity in net income of partially owned entities, excluding Toys, to arrive at FFO: |            |            |            |            |
| Depreciation and amortization of real property  | 22,750     | 27,541     | 65,810     | 73,743     |
| Net gains on sale of real estate  | (1,156)    | (3,591)    | (2,051)    | (7,360)    |
| Real estate impairment losses   | -          | -          | 1,849      | -          |
| Noncontrolling interests' share of above adjustments  | (1,613)    | (10,468)   | (18,197)   | (27,224)   |
| FFO   | 259,904    | 207,722    | 803,919    | 974,033    |
| Preferred share dividends   | (20,613)   | (17,627)   | (56,187)   | (47,743)   |
| Discount on preferred unit redemptions  | 11,700     | 5,000      | 11,700     | 5,000      |
| FFO attributable to common shareholders   | 250,991    | 195,095    | 759,432    | 931,290    |
| Interest on 3.88% exchangeable senior debentures  | -          | -          | 7,830      | 19,670     |
| Convertible preferred share dividends   | 28         | 30         | 85         | 94         |
| FFO attributable to common shareholders plus assumed conversions  | \$ 251,019 | \$ 195,125 | \$ 767,347 | \$ 951,054 |
| <b>Reconciliation of Weighted Average Shares</b>  |            |            |            |            |
| Weighted average common shares outstanding  | 185,924    | 184,398    | 185,656    | 184,220    |
| Effect of dilutive securities:  |            |            |            |            |
| 3.88% exchangeable senior debentures  | -          | -          | 2,279      | 5,736      |
| Employee stock options and restricted share awards  | 681        | 1,667      | 693        | 1,764      |
| Convertible preferred shares  | 50         | 54         | 50         | 55         |
| Denominator for FFO per diluted share   | 186,655    | 186,119    | 188,678    | 191,775    |
| FFO attributable to common shareholders plus assumed conversions  | \$ 1.34    | \$ 1.05    | \$ 4.07    | \$ 4.96    |

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

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

| (Amounts in thousands, except<br>per share amounts)  | <b>September 30,</b>     | <b>2012<br/>Weighted<br/>Average<br/>Interest<br/>Rate</b> | <b>Effect of 1%<br/>Change In<br/>Base Rates</b> | <b>December 31,</b> | <b>2011<br/>Weighted<br/>Average<br/>Interest<br/>Rate</b> |
|--|--------------------------|--|--|---------------------|--|
|  | <b>Balance</b>           |  |  | <b>Balance</b>      |  |
| Consolidated debt:   |                          |  |  |                     |  |
| Variable rate  | \$ 2,221,239             | 2.21%  | \$ 22,212  | \$ 1,881,948        | 2.35%  |
| Fixed rate   | 7,589,339                | 5.45%  | -  | 8,187,355           | 5.55%  |
|  | \$ 9,810,578             | 4.72%  | 22,212   | \$ 10,069,303       | 4.95%  |
| Pro-rata share of debt of<br>non-consolidated<br>entities (non-recourse):                    |                          |  |  |                     |  |
| Variable rate – excluding<br>Toys  | \$ 368,747               | 2.66%  | 3,687  | \$ 284,372          | 2.85%  |
| Variable rate – Toys   | 638,646                  | 5.95%  | 6,386  | 706,301             | 4.83%  |
| Fixed rate (including<br>\$1,124,610 and<br>\$1,270,029 of Toys<br>debt in 2012 and<br>2011) | 3,041,715 <sup>(1)</sup> | 6.97%  | -  | 3,208,472           | 6.96%  |
|  | \$ 4,049,108             | 6.42%  | 10,073   | \$ 4,199,145        | 6.32%  |
| Noncontrolling interests' share of<br>above  |                          |  | (2,002)  |                     |  |
| Total change in annual net<br>income   |                          |  | \$ 30,283  |                     |  |
| Per share-diluted  |                          |  | \$ 0.16  |                     |  |

**(1)** Excludes \$21.6 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 September 30, 2012, 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% (2.21% at September 30, 2012) to a fixed rate of 5.13% for the remaining seven-year term of the loan.

As of September 30, 2012, we have investments in mezzanine loans with an aggregate carrying amount of \$54,793,000 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 September 30, 2012, the estimated fair value of our consolidated debt was \$9,976,000,000.

#### *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 and nine months ended September 30, 2012, we recognized income of \$4,344,000 and a loss of \$53,343,000 from derivative instruments, compared to losses of \$37,537,000 and \$27,136,000, respectively, for the three and nine months ended September 30, 2011.



**Item 4. Controls and Procedures**

Disclosure Controls and Procedures: The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2012, 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, including the matter referred to below, is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

In 2003, Stop & Shop filed an action against us in the New York Supreme Court, claiming that we had no right to reallocate and therefore continue to collect \$5,000,000 of annual rent from Stop & Shop pursuant to a Master Agreement and Guaranty, because of the expiration of the leases to which the annual rent was previously allocated. Stop & Shop asserted that an order of the Bankruptcy Court for the Southern District of New York, as modified on appeal by the District Court, froze our right to reallocate and effectively terminated our right to collect the annual rent from Stop & Shop. We asserted a counterclaim seeking a judgment for all the unpaid annual rent accruing through the date of the judgment and a declaration that Stop & Shop will continue to be liable for the annual rent as long as any of the leases subject to the Master Agreement and Guaranty remain in effect. After summary judgment motions by both sides were denied, the parties conducted discovery. A trial was held in November 2010. On November 7, 2011, the Court determined that we have a continuing right to allocate the annual rent to unexpired leases covered by the Master Agreement and Guaranty, and directed entry of a judgment in our favor ordering Stop & Shop to pay us the unpaid annual rent accrued through February 28, 2011 in the amount of \$37,422,000, a portion of the annual rent due from March 1, 2011 through the date of judgment, interest, and attorneys' fees. On December 16, 2011, a money judgment based on the Court's decision was entered in our favor in the amount of \$56,597,000 (including interest and costs). The amount for attorneys' fees is being addressed in a proceeding before a special referee. Stop & Shop appealed the Court's decision and the judgment, and has posted a bond to secure payment of the judgment. On January 12, 2012, we commenced a new action against Stop & Shop seeking recovery of \$2,500,000 of annual rent not included in the money judgment, plus additional annual rent as it accrues. A motion by Stop & Shop to dismiss the new action was denied on July 19, 2012. Stop & Shop's appeal of that ruling was heard on October 18, 2012, and a decision has not yet been issued.

As of September 30, 2012, we have a \$46,400,000 receivable from Stop & Shop, excluding amounts due to us for interest and costs resulting from the Court's judgment. As a result of Stop & Shop appealing the Court's decision, we believe, after consultation with counsel, that the maximum reasonably possible loss is up to the total amount of the receivable of \$46,400,000.



**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, 2011.

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

During the third quarter of 2012, we issued 4,436 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, 2011, 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**

On October 30, 2012, Mr. Anthony W. Deering resigned from our Board of Trustees for personal reasons, effective as of December 31, 2012. Mr. Deering stated that he had no disagreements with Vornado, its Board of Trustees or its management.

**Item 6. Exhibits**

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

## SIGNATURES

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

**VORNADO REALTY TRUST**  
(Registrant)

Date: November 1, 2012

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, 5.70% Series K Cumulative Redeemable Preferred Shares of Beneficial Interest, liquidation preference \$25.00 per share, no par value – Incorporated by reference to Exhibit 3.5 to Vornado Realty Trust’s Registration Statement on Form 8-A (File No. 001-11954), filed on July 18, 2012 | * |
| 3.48    | - | Forty-Fourth Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of July 18, 2012 – 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 July 18, 2012   | * |
| 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