VORNADO REALTY TRUST
Form 10-Q
November 03, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

OF THE SECURITIES EXCHANGE ACT OF 1934

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

Or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from: **to**

Commission File Number: **001-11954**

VORNADO REALTY TRUST

(Exact name of registrant as specified in its charter)

Maryland **22-1657560**

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

(212) 894-7000

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

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

As of September 30, 2011, 184,496,038 of the registrant's common shares of beneficial interest are outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

VORNADO REALTY TRUST
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Amounts in thousands, except share and per share amounts) **ASSETS**	**September 30, 2011**	**December 31, 2010**
Real estate, at cost:		
Land	$ 4,524,930	$ 4,535,042
Buildings and improvements	12,573,880	12,510,244
Development costs and construction in progress	225,098	217,505
Leasehold improvements and equipment	127,294	124,910
Total	17,451,202	17,387,701
Less accumulated depreciation and amortization	(2,975,075)	(2,715,046)
Real estate, net	14,476,127	14,672,655
Cash and cash equivalents	585,183	690,789
Restricted cash	124,984	200,822
Marketable securities	631,361	766,116
Accounts receivable, net of allowance for doubtful accounts of $76,935 and $62,979	145,854	157,146
Investments in partially owned entities	1,157,326	927,672
Investment in Toys "R" Us	546,258	447,334
Real Estate Fund investments	261,417	144,423
Mezzanine loans receivable, net	156,365	202,412
Receivable arising from the straight-lining of rents, net of allowance of $8,973 and $7,316	724,483	695,486
Deferred leasing and financing costs, net of accumulated amortization of $236,859 and $219,965	360,056	354,864
Identified intangible assets, net of accumulated amortization of $356,118 and $335,113	334,878	346,157
Assets related to discontinued operations	253,352	519,285
Due from officers	13,185	13,187
Other assets	417,399	379,123
	$ 20,188,228	$ 20,517,471
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Notes and mortgages payable	$ 8,462,191	$ 8,255,101
Senior unsecured notes	959,421	1,082,928
Exchangeable senior debentures	496,139	491,000
Convertible senior debentures	188,799	186,413
Revolving credit facility debt	300,000	874,000
Accounts payable and accrued expenses	469,024	438,479
Deferred credit	532,221	575,836

Deferred compensation plan	94,623	91,549
Deferred tax liabilities	13,814	13,278
Liabilities related to discontinued operations	8,954	267,652
Other liabilities	139,353	82,856
Total liabilities	11,664,539	12,359,092
Commitments and contingencies		
Redeemable noncontrolling interests:		
Class A units - 12,526,395 and 12,804,202 units outstanding	934,720	1,066,974
Series D cumulative redeemable preferred units - 9,000,001 and 10,400,001 units outstanding	226,000	261,000
Total redeemable noncontrolling interests	1,160,720	1,327,974
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 42,186,709 and 32,340,009 shares	1,021,855	783,088
Common shares of beneficial interest: $.04 par value per share; authorized 250,000,000 shares; issued and outstanding 184,496,038 and 183,661,875 shares	7,350	7,317
Additional capital	7,112,004	6,932,728
Earnings less than distributions	(1,330,405)	(1,480,876)
Accumulated other comprehensive (loss) income	(59,019)	73,453
Total Vornado shareholders' equity	6,751,785	6,315,710
Noncontrolling interests in consolidated subsidiaries	611,184	514,695
Total equity	7,362,969	6,830,405
	$ 20,188,228	$ 20,517,471

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(Amounts in thousands, except per share amounts)	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
REVENUES:				
Property rentals	$ 561,149	$ 559,518	$ 1,688,551	$ 1,661,967
Tenant expense reimbursements	94,053	95,341	264,857	271,040
Cleveland Medical Mart development project	35,135	-	108,203	-
Fee and other income	37,006	32,266	112,239	104,838
Total revenues	727,343	687,125	2,173,850	2,037,845
EXPENSES:				
Operating	285,659	275,077	841,266	802,927
Depreciation and amortization	134,074	130,599	393,846	393,259
General and administrative	46,452	55,200	155,566	153,231
Cleveland Medical Mart development project	33,419	-	101,637	-
Tenant buy-outs and other acquisition related costs	2,288	921	22,455	2,851
Total expenses	501,892	461,797	1,514,770	1,352,268
Operating income	225,451	225,328	659,080	685,577
(Loss) income applicable to Toys "R" Us	(9,304)	(2,557)	80,794	102,309
Income (loss) from partially owned entities	13,552	(1,996)	56,239	13,800
Income (loss) from Real Estate Fund (of which $3,675 and ($1,091) is attributable to noncontrolling interests, in each three-month period, respectively, and $15,703 and ($1,091) in each nine-month period, respectively)	5,353	(1,410)	25,491	(1,410)
Interest and other investment (loss) income, net	(29,994)	47,096	95,121	65,676
Interest and debt expense (including amortization of deferred financing costs of $4,828 and $5,170 in each three-month period, respectively, and $14,696 and $14,085 in each nine-month period, respectively)	(136,672)	(145,561)	(408,532)	(423,354)
Net (loss) on extinguishment of debt	-	(724)	-	(1,796)
Net gain on disposition of wholly owned and partially owned assets	1,298	5,072	7,975	12,759
Income before income taxes	69,684	125,248	516,168	453,561
Income tax expense	(7,144)	(5,449)	(19,448)	(15,993)

Income from continuing operations	62,540	119,799	496,720	437,568
Income (loss) from discontinued operations	3,683	(3,667)	146,293	(11,681)
Net income	66,223	116,132	643,013	425,887
Less:				
Net income attributable to noncontrolling interests in consolidated subsidiaries	(5,636)	(296)	(20,643)	(1,490)
Net income attributable to noncontrolling interests in the Operating Partnership, including unit distributions	(6,825)	(11,584)	(47,364)	(33,487)
Net income attributable to Vornado	53,762	104,252	575,006	390,910
Preferred share dividends	(17,627)	(13,442)	(47,743)	(41,975)
Discount on preferred share and unit redemptions	5,000	4,382	5,000	4,382
NET INCOME attributable to common shareholders	$ 41,135	$ 95,192	$ 532,263	$ 353,317
INCOME PER COMMON SHARE - BASIC:				
Income from continuing operations, net	$ 0.20	$ 0.54	$ 2.14	$ 2.00
Income (loss) from discontinued operations, net	0.02	(0.02)	0.75	(0.06)
Net income per common share	$ 0.22	$ 0.52	$ 2.89	$ 1.94
Weighted average shares	184,398	182,462	184,220	182,014
INCOME PER COMMON SHARE - DILUTED:				
Income from continuing operations, net	$ 0.20	$ 0.54	$ 2.12	$ 1.98
Income (loss) from discontinued operations, net	0.02	(0.02)	0.74	(0.06)
Net income per common share	$ 0.22	$ 0.52	$ 2.86	$ 1.92
Weighted average shares	186,065	184,168	186,039	183,826
DIVIDENDS PER COMMON SHARE	$ 0.69	$ 0.65	$ 2.07	$ 1.95

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended September 30, 2011	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2011	For the Nine Months Ended September 30, 2010
Net income	$ 66,223	$ 116,132	$ 643,013	$ 425,887
Other comprehensive (loss) income:				
Change in unrealized net (loss) gain on securities available-for-sale	(161,178)	8,966	(120,334)	34,497
Pro rata share of other comprehensive income (loss) of nonconsolidated subsidiaries	112	3,885	26,477	(12,080)
Change in value of interest rate swap	(24,424)	-	(42,458)	-
Other	(69)	(5,176)	(5,114)	(5,594)
Comprehensive (loss) income	(119,336)	123,807	501,584	442,710
Less:				
Comprehensive income attributable to noncontrolling interests	(400)	(12,414)	(59,050)	(36,148)
Comprehensive (loss) income attributable to Vornado	$ (119,736)	$ 111,393	$ 442,534	$ 406,562

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Preferred Shares		Common Shares		Additional	Earnings Less Than	Accumulated Other Comprehensive Income	Non-controlling	Total
	Shares	Amount	Shares	Amount	Capital	Distributions	(Loss)	Interests	Equity
Balance, December 31, 2009	33,952	$823,686	181,214	$7,218	$6,961,007	$(1,577,591)	$ 28,449	$406,637	$6,649,406
Net income	-	-	-	-	-	390,910	-	1,490	392,400
Dividends on common shares	-	-	-	-	-	(354,937)	-	-	(354,937)
Dividends on preferred shares	-	-	-	-	-	(42,100)	-	-	(42,100)
Redemption of preferred shares	(1,600)	(39,982)	-	-	-	4,382	-	-	(35,600)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	822	33	62,573	-	-	-	62,606
Under employees' share option plan	-	-	596	24	10,922	(25,583)	-	-	(14,637)
Under dividend reinvestment plan	-	-	17	1	1,231	-	-	-	1,232
Contributions:									
Real Estate Fund	-	-	-	-	-	-	-	37,698	37,698
Other	-	-	-	-	-	-	-	188	188
Conversion of Series A preferred shares to common	(3)	(177)	5	-	177	-	-	-	-

shares									
Deferred compensation shares and options	-	-	17	1	6,155	-	-	-	6,156
Change in unrealized net gain on securities available-for-sale	-	-	-	-	-	-	34,497	-	34,497
Pro rata share of other comprehensive (loss) of nonconsolidated subsidiaries	-	-	-	-	-	-	(12,080)	-	(12,080)
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(232,099)	-	-	-	(232,099)
Other	-	-	-	-	(61)	30	(5,594)	670	(4,955)
Balance, September 30, 2010	32,349	$783,527	182,671	$7,277	$6,809,905	$(1,604,889)	$ 45,272	$446,683	$6,487,775

(Amounts in thousands)	Preferred Shares		Common Shares		Additional	Earnings Less Than	Accumulated Other Comprehensive Income (Loss)	Non-controlling	Total
	Shares	**Amount**	**Shares**	**Amount**	**Capital**	**Distributions**		**Interests**	**Equity**
Balance, December 31, 2010	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)
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 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	-	-	-	-	114,628	-	-	-	114,628

Class A units at redemption value									
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	8,957	-	8,957
Other	-	(105)	-	-	(4,518)	5,149	(5,114)	4,558	(30)
Balance, September 30, 2011	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).

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VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended September 30, 2011	2010
(Amounts in thousands)		
Cash Flows from Operating Activities:		
Net income	$ 643,013	$ 425,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	414,992	419,638
Equity in net income of partially owned entities, including Toys "R" Us	(137,033)	(116,109)
Net (gain) loss on extinguishment of debt	(83,907)	1,796
Mezzanine loans loss (reversal) accrual and net gain on disposition	(82,744)	6,900
Distributions of income from partially owned entities	75,612	36,829
Net gain on sales of real estate	(51,623)	-
Amortization of below-market leases, net	(49,988)	(49,144)
Straight-lining of rental income	(38,262)	(55,581)
Loss (income) from the mark-to-market of J.C. Penney derivative position	27,136	(32,249)
Other non-cash adjustments	20,261	36,058
Unrealized gain on Real Estate Fund assets	(19,209)	-
Net gain on disposition of wholly owned and partially owned assets	(7,975)	(12,759)
Litigation loss accrual and impairment losses	-	15,197
Changes in operating assets and liabilities:		
Real Estate Fund investments	(97,785)	(62,500)
Accounts receivable, net	11,292	(6,468)
Prepaid assets	(68,558)	(45,104)
Other assets	(43,413)	(59,614)
Accounts payable and accrued expenses	32,227	78,153
Other liabilities	22,635	13,791
Net cash provided by operating activities	566,671	594,721
Cash Flows from Investing Activities:		
Investments in partially owned entities	(440,865)	(159,053)
Distributions of capital from partially owned entities	274,283	45,613
Proceeds from sales of real estate and related investments	135,762	48,998
Restricted cash	121,463	125,204
Additions to real estate	(109,963)	(98,789)
Proceeds from sales and repayments of mezzanine loans	100,525	109,594
Development costs and construction in progress	(52,816)	(86,871)
Investments in mezzanine loans receivable and other	(44,215)	(75,697)

Funding of collateral for J.C. Penney derivative	(33,850)	-
Return of derivative collateral	28,700	-
Proceeds from sales of marketable securities	19,301	126,015
Proceeds from maturing short-term investments	-	40,000
Purchases of marketable securities	-	(13,917)
Acquisitions of real estate and other	-	(10,000)
Net cash (used in) provided by investing activities	(1,675)	51,097

See notes to consolidated financial statements (unaudited).

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

	For the Nine Months Ended September 30,	
	2011	**2010**
(Amounts in thousands)		
Cash Flows from Financing Activities:		
Repayments of borrowings	$ (2,666,610)	$ (1,462,652)
Proceeds from borrowings	2,184,167	1,603,359
Dividends paid on common shares	(381,382)	(354,937)
Proceeds from the issuance of Series J preferred shares	239,037	-
Contributions from noncontrolling interests	109,605	39,351
Distributions to noncontrolling interests	(77,330)	(41,055)
Dividends paid on preferred shares	(43,675)	(42,100)
Debt issuance and other costs	(28,614)	(14,942)
Purchases of outstanding preferred units and shares	(28,000)	(48,600)
Proceeds received from exercise of employee share options	22,947	12,192
Repurchase of shares related to stock compensation agreements and related tax withholdings	(747)	(25,659)
Net cash used in financing activities	(670,602)	(335,043)
Net (decrease) increase in cash and cash equivalents	(105,606)	310,775
Cash and cash equivalents at beginning of period	690,789	535,479
Cash and cash equivalents at end of period	$ 585,183	$ 846,254
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest (including capitalized interest of $0 and $875)	$ 388,938	$ 409,953
Cash payments for income taxes	$ 10,299	$ 5,348
Non-Cash Investing and Financing Activities:		
Change in unrealized net (loss) gain on securities available-for-sale	$ (120,334)	$ 34,497
Adjustments to carry redeemable Class A units at redemption value	114,628	(232,099)
Common shares issued upon redemption of Class A units, at redemption value	38,220	62,606
Contribution of mezzanine loan receivable to a joint venture	73,750	-
Like-kind exchange of real estate	(45,625)	-
Extinguishment of a liability in connection with the acquisition of real estate	-	20,500
Investment in J.C. Penney, Inc.	-	271,372
Decrease in assets and liabilities resulting from deconsolidation of discontinued operations:		
Assets related to discontinued operations	(145,333)	-
	(232,502)	-

Liabilities related to discontinued operations		
Write-off of fully depreciated assets	(58,279)	(50,785)

See notes to consolidated financial statements (unaudited).

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization

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

2. Basis of Presentation

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

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, 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, 2011 are not necessarily indicative of the operating results for the full year.

3. Recently Issued Accounting Literature

In June 2011, the Financial Accounting Standards Board ("FASB") issued an update to Accounting Standards Codification ("ASC") 220, *Comprehensive Income*, which requires, among other things, presentation of the components of net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. This update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. We believe that the adoption of this guidance on January 1, 2012 will not have a material effect on our consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

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

We are the general partner and investment manager of an $800,000,000 real estate investment Fund, to which we have committed $200,000,000. The Fund has a term of eight years and is our exclusive investment vehicle during its three-year investment period, which concludes in July 2013, for all investments that fit within the Fund's investment parameters, as defined. The Fund is accounted for under the AICPA Audit and Accounting Guide for Investment Companies and its investments are reported on its balance sheet at fair value, with changes in value each period recognized in earnings. We consolidate the accounts of the Fund into our consolidated financial statements.

From inception through September 30, 2011, the Fund received aggregate capital contributions from partners of $256,100,000, including $64,031,000 from us, and as of September 30, 2011, has five investments with an aggregate fair value of approximately $261,417,000. Below is a summary of income (loss) from the Fund for the three and nine months ended September 30, 2011 and 2010.

(Amounts in thousands)	For the Three Months Ended September 30, 2011	2010	For the Nine Months Ended September 30, 2011	2010
Operating (loss) income	$ (286)	$ (1,410)	$ 3,197	$ (1,410)
Net realized gains	-	-	3,085	-
Net unrealized gains	5,639	-	19,209	-
Income (loss) from Real Estate Fund	5,353	(1,410)	25,491	(1,410)
Less:				
(Income) loss attributable to noncontrolling interests	(3,675)	1,091	(15,703)	1,091
Income (loss) from Real Estate Fund attributable to Vornado [1]	$ 1,678	$ (319)	$ 9,788	$ (319)

(1) Excludes $378 and $1,803 of management, leasing and development fees in the three and nine months ended September 30, 2011, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

One Park Avenue

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

5. Marketable Securities and Derivative Instruments

Marketable Securities

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

In the nine months ended September 30, 2011 and 2010, we sold certain marketable securities for aggregate proceeds of $19,301,000 and $155,118,000, resulting in net gains of $2,139,000 and $8,960,000, respectively, of which $0 and $5,052,000 was recognized in the three months ended September 30, 2011 and 2010, respectively.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

5. Marketable Securities and Derivative Instruments- continued

Marketable Securities-continued

Below is a summary of our marketable securities portfolio as of September 30, 2011 and December 31, 2010.

	As of September 30, 2011				As of December 31, 2010			
	Maturity	Fair Value	GAAP Cost	Unrealized (Loss) Gain	Maturity	Fair Value	GAAP Cost	Unrealized Gain
Equity securities:								
J.C. Penney	n/a	$ 497,680	$ 590,366	$ (92,686)	n/a	$ 600,600	$ 590,366	$ 10,234
Other	n/a	26,769	13,561	13,208	n/a	47,248	26,481	20,767
Debt securities	04/13 - 10/18	106,912	102,679	4,233	08/11 - 10/18	118,268	104,180	14,088
		$ 631,361	$ 706,606	$ (75,245)		$ 766,116	$ 721,027	$ 45,089

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

We own an economic interest in 23,400,000 J.C. Penney common shares, or 10.9% of J.C. Penney's outstanding common shares. Below are the details of our investment.

We own 18,584,010 common shares at an average economic cost of $25.71 per share or $477,829,000 in the aggregate. As of September 30, 2011, these shares have an aggregate fair value of $497,680,000, based on J.C.

Penney's closing share price of $26.78 per share at September 30, 2011. Of these shares, 15,500,000 were acquired through the exercise of a call option that was acquired on September 28, 2010 and settled on November 9, 2010. During the period in which the call option was outstanding and classified as a derivative instrument, we recognized $112,537,000 of income. Upon exercise of the call option, the GAAP basis of the 18,584,010 common shares we own increased to $31.77 per share, or $590,366,000 in the aggregate. These shares are included in marketable equity securities on our consolidated balance sheet and are classified as "available for sale." During the nine months ended September 30, 2011, we recognized a $102,920,000 loss from the mark-to-market of these shares, which is included in "other comprehensive (loss) income," based on the difference between the carrying amount of these shares of $600,600,000 at December 31, 2010 and the fair value of $497,680,000 at September 30, 2011.

We also own an economic interest in 4,815,990 common shares through a forward contract executed on October 7, 2010, at a weighted average strike price of $28.76 per share, or $138,492,000 in the aggregate. The contract may be settled, at our election, in cash or common shares, in whole or in part, at any time prior to October 9, 2012. The counterparty may accelerate settlement, in whole or in part, upon one year's notice to us. The strike price per share increases at an annual rate of LIBOR plus 80 basis points. The contract is a derivative instrument that does not qualify for hedge accounting treatment. Mark-to-market adjustments on the underlying common shares are recognized in "interest and other investment (loss) income, net" on our consolidated statements of income. During 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, based on J.C. Penney's closing share price of $26.78 per share at September 30, 2011.

On September 16, 2011, we entered into an agreement with J.C. Penney which enables us to increase our beneficial and/or economic ownership to up to 15.4% of J.C. Penney's outstanding common shares. We have agreed to vote any common shares we hold in excess of 9.9% of J.C. Penney's outstanding common shares in accordance with either the recommendation of the board of directors of J.C. Penney or in direct proportion to the vote of all other public shareholders of J.C. Penney (excluding shares affiliated with Pershing Square Capital Management L.P.).

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

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities

Toys "R" Us ("Toys")

As of September 30, 2011, we own 32.7% of Toys. The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income accounts for more than 80% of its fiscal year net income. We account for our investment in Toys under the equity method and record our 32.7% share of Toys net income or loss on a one-quarter lag basis because Toys' fiscal year ends on the Saturday nearest January 31, and our fiscal year ends on December 31. As of September 30, 2011, the carrying amount of our investment in Toys does not differ materially from our share of the equity in the net assets of Toys on a purchase accounting basis.

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

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

(Amounts in thousands)			**Balance as of**	
Balance Sheet:			**July 30, 2011**	**October 30, 2010**
Assets			$ 11,778,000	$ 12,810,000
Liabilities			9,969,000	11,317,000
Toys "R" Us, Inc. equity			1,809,000	1,493,000
	For the Three Months Ended		**For the Nine Months Ended**	
Income Statement:	**July 30, 2011**	**July 31, 2010**	**July 30, 2011**	**July 31, 2010**
Total revenues	$ 2,648,000	$ 2,565,000	$ 11,256,000	$ 11,030,000
Net (loss) income attributable to Toys	(36,000)	(16,000)	227,000	292,000

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

As of September 30, 2011, we own 1,654,068 Alexander's common shares, or approximately 32.4% of Alexander's common equity. We manage, lease and develop Alexander's properties pursuant to the agreements described below which expire in March of each year and are automatically renewable. As of September 30, 2011, Alexander's owed us $43,308,000 in fees under these agreements.

As of September 30, 2011, the fair value of our investment in Alexander's, based on Alexander's September 30, 2011 closing share price of $361.02, was $597,152,000, or $406,875,000 in excess of the carrying amount on our consolidated balance sheet. As of September 30, 2011, the carrying amount of our investment in Alexander's, excluding amounts owed to us, exceeds our share of the equity in the net assets of Alexander's by approximately $59,188,000. The majority of this basis difference resulted from the excess of our purchase price for the Alexander's common stock acquired over the book value of Alexander's net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of Alexander's assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in Alexander's net income. The basis difference related to the land will be recognized upon disposition of our investment.

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

(Amounts in thousands)			Balance as of	
Balance Sheet:			**September 30, 2011**	**December 31, 2010**
Assets			$ 1,785,000	$ 1,679,000
Liabilities			1,427,000	1,335,000
Noncontrolling interests			4,000	3,000
Stockholders' equity			354,000	341,000
	For the Three Months Ended		**For the Nine Months Ended**	
Income Statement:	**September 30, 2011**	**September 30, 2010**	**September 30, 2011**	**September 30, 2010**
Total revenues	$ 65,000	$ 61,000	$ 190,000	$ 179,000
Net income attributable to Alexander's	20,000	18,000	59,000	49,000

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities – continued

Lexington Realty Trust (“Lexington”) (NYSE: LXP)

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

Based on Lexington’s September 30, 2011 closing share price of $6.54, the fair value of our investment in Lexington was $120,787,000, or $59,472,000 in excess of the September 30, 2011 carrying amount on our consolidated balance sheet. As of September 30, 2011, the carrying amount of our investment in Lexington was less than our share of the equity in the net assets of Lexington by approximately $48,861,000. This basis difference resulted primarily from $107,882,000 of non-cash impairment charges recognized during 2008, partially offset by purchase accounting for our acquisition of an additional 8,000,000 common shares of Lexington in October 2008, of which the majority relates to our estimate of the fair values of Lexington’s real estate (land and buildings) as compared to the carrying amounts in Lexington’s consolidated financial statements. The basis difference related to the buildings is being amortized over their estimated useful lives as an adjustment to our equity in net income or loss of Lexington. This amortization is not material to our share of equity in Lexington’s net income or loss. The basis difference attributable to the land will be recognized upon disposition of our investment.

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

(Amounts in thousands)	**Balance as of**

Balance Sheet:			**June 30, 2011**	**September 30, 2010**
Assets			$ 3,240,000	$ 3,385,000
Liabilities			1,910,000	2,115,000
Noncontrolling interests			60,000	71,000
Shareholders' equity			1,270,000	1,199,000
	For the Three Months Ended		**For the Nine Months Ended**	
Income Statement:	**June 30, 2011**	**June 30, 2010**	**June 30, 2011**	**June 30, 2010**
Total revenues	$ 83,000	$ 81,000	$ 252,000	$ 249,000
Net (loss) attributable to Lexington	(44,000)	(24,000)	(49,000)	(97,000)

LNR Property LLC ("LNR")

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

LNR consolidates certain commercial mortgage-backed securities ("CMBS") and Collateralized Debt Obligation ("CDO") trusts for which it is the primary beneficiary. The assets of these trusts (primarily commercial mortgage loans), which aggregate approximately $138.5 billion as of June 30, 2011, are the sole source of repayment of the related liabilities, which are non-recourse to LNR and its equity holders, including us. Changes in the fair value of these assets each period are offset by changes in the fair value of the related liabilities through LNR's consolidated income statement. As of September 30, 2011, the carrying amount of our investment in LNR does not materially differ from our share of LNR's equity.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities – continued

LNR Property LLC (“LNR”) – continued

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

(Amounts in thousands)	Balance as of	
Balance Sheet:	**June 30, 2011**	**September 30, 2010**
Assets	$ 139,731,000	$ 143,266,000
Liabilities	139,025,000	142,720,000
Noncontrolling interests	43,000	37,000
LNR equity	663,000	509,000
	For the Three Months Ended	**For the Nine Months Ended**
Income Statement:	**June 30, 2011**	**June 30, 2011**
Total revenues	$ 73,000	$ 156,000
Net income attributable to LNR	52,000	152,000

280 Park Avenue Joint Venture

On March 16, 2011, we formed a 50/50 joint venture with SL Green Realty Corp (“SL Green”) to own the mezzanine debt of 280 Park Avenue, a 1.2 million square foot office building located between 48th and 49th Streets in Manhattan (the “Property”). We contributed our mezzanine loan with a face amount of $73,750,000, and they contributed their mezzanine loans with a face amount of $326,250,000 to the joint venture. We equalized our interest in the joint venture with SL Green by paying them $111,250,000 in cash and assuming $15,000,000 of their debt. On May 17, 2011, as part of the recapitalization of the Property, the joint venture contributed its debt position for 99% of the common equity of a new joint venture which owns the Property. The new joint venture expects to spend $150,000,000 for re-tenanting and repositioning the Property. We account for our 49.5% equity interest in the Property under the equity method of accounting from the date of recapitalization.

Independence Plaza

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

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities - continued

Investments in partially owned entities as of September 30, 2011 and December 31, 2010 and income (loss) recognized from these investments for the three and nine months ended September 30, 2011 and 2010 are as follows:

(Amounts in thousands)	Percentage Ownership as of September 30, 2011	Balance as of September 30, 2011	Balance as of December 31, 2010
Investments:			
Toys	32.7 %	$ 546,258	$ 447,334
Alexander's	32.4 %	$ 190,277	$ 186,811
Lexington	11.7 %	61,315	57,270
LNR	26.2 %	156,090	132,973
India real estate ventures	4%-36.5%	101,155	127,193
Partially owned office buildings (1)	Various	452,284	181,838
Other equity method investments (2)	Various	196,205	241,587
		$ 1,157,326	$ 927,672

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Our Share of Net Income (Loss):	**2011**	**2010**	**2011**	**2010**
Toys – 32.7% share of:				
Equity in net (loss) income before income taxes	$ (26,773)	$ (32,574)	$ 104,049	$ 93,662
Income tax benefit (expense)	15,135	27,501	(29,914)	1,914
Equity in net (loss) income	(11,638)	(5,073)	74,135	95,576
Interest and other income	2,334	2,516	6,659	6,733
	$ (9,304)	$ (2,557)	$ 80,794	$ 102,309
Alexander's – 32.4% share of:				
Equity in net income	$ 6,437	$ 5,612	$ 18,507	$ 14,309
Management, leasing and development fees	2,170	1,945	6,749	6,774
	8,607	7,557	25,256	21,083
Lexington – 11.7% share in 2011 and 13.8% share in 2010 of equity in net (loss) income (3)	(617)	(2,301)	10,209	3,316

LNR – 26.2% share of equity in net income (acquired in July 2010) [4]	13,656	-	39,913	-
India real estate ventures – 4% to 36.5% range in our share of equity in net (loss) income	(690)	(195)	(692)	2,062
Partially owned office buildings [5]	(6,839)	86	(13,829)	1,864
Other equity method investments	(565)	(7,143)	(4,618)	(14,525)
	$ 13,552	$ (1,996)	$ 56,239	$ 13,800

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

(2) Includes interests in Monmouth Mall, Verde Realty Operating Partnership, 85 10th Avenue Associates and others.

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

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

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

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities – continued

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

(Amounts in thousands)	Maturity	Interest Rate at September 30, 2011	100% of Partially Owned Entities' Debt at September 30, 2011	December 31, 2010
Toys (32.7% interest) (as of July 30, 2011 and October 30, 2010, respectively):				
Senior unsecured notes (Face value – $950,000)	07/17	10.75 %	$ 929,773	$ 928,045
Senior unsecured notes (Face value – $725,000)	12/17	8.50 %	716,325	715,577
$700 million secured term loan facility	09/16	6.00 %	685,595	689,757
Senior U.K. real estate facility	04/13	5.02 %	573,207	561,559
$400 million secured term loan facility	05/18	5.25 %	396,082	-
7.875% senior notes (Face value – $400,000)	04/13	9.50 %	390,135	386,167
7.375% senior secured notes (Face value – $350,000)	09/16	7.38 %	358,147	350,000
7.375% senior notes (Face value – $400,000)	10/18	9.99 %	347,238	343,528
Japan bank loans	03/12-02/16	1.85%-2.85%	194,376	180,500
Spanish real estate facility	02/13	4.51 %	183,857	