VORNADO REALTY TRUST
Form 10-Q
May 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended: **March 31, 2014**

Or

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

For the transition period from: **to**

Commission File Number: **001-11954**

VORNADO REALTY TRUST

(Exact name of registrant as specified in its charter)

Maryland	**22-1657560**

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

(212) 894-7000

(Registrant's telephone number, including area code)

N/A

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

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

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

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

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

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

As of March 31, 2014, 187,411,596 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)	March 31, 2014	December 31, 2013
ASSETS		
Real estate, at cost:		
Land	$ 4,058,317	$ 4,068,306
Buildings and improvements	12,477,661	12,475,556
Development costs and construction in progress	1,410,465	1,353,121
Leasehold improvements and equipment	133,699	132,483
Total	18,080,142	18,029,466
Less accumulated depreciation and amortization	(3,441,223)	(3,381,457)
Real estate, net	14,638,919	14,648,009
Cash and cash equivalents	1,156,727	583,290
Restricted cash	210,184	262,440
Marketable securities	205,042	191,917
Tenant and other receivables, net of allowance for doubtful accounts of $20,233 and $21,869	123,486	115,862
Investments in partially owned entities	1,168,996	1,166,443
Investment in Toys "R" Us	75,932	83,224
Real Estate Fund investments	682,002	667,710
Mortgage and mezzanine loans receivable, net of allowance of $5,824 and $5,845	42,749	170,972
Receivable arising from the straight-lining of rents, net of allowance of $3,979 and $4,355	830,381	817,357
Deferred leasing and financing costs, net of accumulated amortization of $277,257 and $264,451	437,056	411,927
Identified intangible assets, net of accumulated amortization of $290,214 and $277,998	299,759	311,963
Assets related to discontinued operations	207,575	314,622
Other assets	290,544	351,488
	$ 20,369,352	$ 20,097,224
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Mortgages payable	$ 8,913,358	$ 8,331,993
Senior unsecured notes	1,343,442	1,350,855
Revolving credit facility debt	88,138	295,870
Accounts payable and accrued expenses	457,858	422,276
Deferred revenue	514,605	529,048
Deferred compensation plan	121,970	116,515
Deferred tax liabilities	1,272	1,280
Liabilities related to discontinued operations	-	13,950

Other liabilities	378,551	437,073
Total liabilities	11,819,194	11,498,860
Commitments and contingencies		
Redeemable noncontrolling interests:		
Class A units - 11,564,839 and 11,292,038 units outstanding	1,139,831	1,002,620
Series D cumulative redeemable preferred unit - 1 unit outstanding	1,000	1,000
Total redeemable noncontrolling interests	1,140,831	1,003,620
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,682,807 shares	1,277,225	1,277,225
Common shares of beneficial interest: $.04 par value per share; authorized 250,000,000 shares; issued and outstanding 187,411,596 and 187,284,688 shares	7,474	7,469
Additional capital	7,017,611	7,143,840
Earnings less than distributions	(1,809,609)	(1,734,839)
Accumulated other comprehensive income	77,626	71,537
Total Vornado shareholders' equity	6,570,327	6,765,232
Noncontrolling interests in consolidated subsidiaries	839,000	829,512
Total equity	7,409,327	7,594,744
	$ 20,369,352	$ 20,097,224

See notes to consolidated financial statements (unaudited).

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VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the Three Months Ended March 31,	
(Amounts in thousands, except per share amounts)	**2014**	**2013**
REVENUES:		
Property rentals	$ 528,100	$ 533,793
Tenant expense reimbursements	86,590	75,964
Cleveland Medical Mart development project	-	12,143
Fee and other income	45,928	96,813
Total revenues	660,618	718,713
EXPENSES:		
Operating	273,391	265,747
Depreciation and amortization	147,651	139,317
General and administrative	52,158	51,380
Cleveland Medical Mart development project	-	11,374
Impairment losses and acquisition related costs	21,784	601
Total expenses	494,984	468,419
Operating income	165,634	250,294
Income applicable to Toys "R" Us	1,847	1,759
Income from partially owned entities	132	20,766
Income from Real Estate Fund	18,148	16,564
Interest and other investment income (loss), net	11,893	(49,075)
Interest and debt expense	(109,442)	(120,346)
Net gain (loss) on disposition of wholly owned and partially owned assets	9,635	(36,724)
Income before income taxes	97,847	83,238
Income tax expense	(1,582)	(1,073)
Income from continuing operations	96,265	82,165
Income from discontinued operations	1,891	206,762
Net income	98,156	288,927
Less net income attributable to noncontrolling interests in:		
Consolidated subsidiaries	(11,579)	(11,286)
Operating Partnership	(3,848)	(13,933)
Preferred unit distributions of the Operating Partnership	(12)	(786)
Net income attributable to Vornado	82,717	262,922
Preferred share dividends	(20,368)	(21,702)
Preferred share redemptions	-	(9,230)
NET INCOME attributable to common shareholders	$ 62,349	$ 231,990
INCOME PER COMMON SHARE - BASIC:		
Income from continuing operations, net	$ 0.32	$ 0.20
Income from discontinued operations, net	0.01	1.04
Net income per common share	$ 0.33	$ 1.24
Weighted average shares outstanding	187,307	186,752
INCOME PER COMMON SHARE - DILUTED:		
Income from continuing operations, net	$ 0.32	$ 0.20

Income from discontinued operations, net		0.01		1.04
Net income per common share	$	0.33	$	1.24
Weighted average shares outstanding		188,240		187,529
DIVIDENDS PER COMMON SHARE	$	0.73	$	0.73

See notes to consolidated financial statements (unaudited).

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VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended March 31, 2014	2013
Net income	$ 98,156	$ 288,927
Other comprehensive income:		
Change in unrealized net gain on available-for-sale securities	13,125	148,789
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	(8,286)	(3,647)
Change in value of interest rate swap	1,610	2,523
Other	1	533
Comprehensive income	104,606	437,125
Less comprehensive income attributable to noncontrolling interests	(15,800)	(34,304)
Comprehensive income attributable to Vornado	$ 88,806	$ 402,821

See notes to consolidated financial statements (unaudited).

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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 Interests in Consolidated	Total
	Shares	Amount	Shares	Amount	Capital	Distributions	(Loss)	Subsidiaries	Equity
Balance, December 31, 2012	51,185	$ 1,240,278	186,735	$ 7,440	$ 7,195,438	$ (1,573,275)	$ (18,946)	$ 1,053,209	$ 7,904,144
Net income attributable to Vornado	-	-	-	-	-	262,922	-	-	262,922
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	11,286	11,286
Dividends on common shares	-	-	-	-	-	(136,342)	-	-	(136,342)
Dividends on preferred shares	-	-	-	-	-	(21,702)	-	-	(21,702)
Issuance of Series L preferred shares	12,000	290,710	-	-	-	-	-	-	290,710
Redemption of Series F and Series H preferred shares	(10,500)	(253,269)	-	-	-	-	-	-	(253,269)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	162	5	13,399	-	-	-	13,404

Under employees' share option plan	-	-	27	1	1,175	-	-	-	1,176
Under dividend reinvestment plan	-	-	5	-	433	-	-	-	433
Contributions:									
Real Estate Fund	-	-	-	-	-	-	-	10,251	10,251
Other	-	-	-	-	-	-	-	14,316	14,316
Distributions:									
Real Estate Fund	-	-	-	-	-	-	-	(43,145)	(43,145)
Other	-	-	-	-	-	-	-	(120,051)	(120,051)
Deferred compensation shares and options	-	-	6	1	2,512	(305)	-	-	2,208
Change in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	148,789	-	148,789
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(3,647)	-	(3,647)
Change in value of interest rate swap	-	-	-	-	-	-	2,523	-	2,523
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(44,998)	-	-	-	(44,998)
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	(8,299)	-	(8,299)

Preferred unit and share redemptions	-	-	-	-	-	(9,230)	-	-	(9,230)
Other	-	-	-	-	-	(1,364)	533	(38)	(869)
Balance, March 31, 2013	52,685	$ 1,277,719	186,935	$ 7,447	$ 7,167,959	$ (1,479,296)	$ 120,953	$ 925,828	$ 8,020,610

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Preferred Shares		Common Shares		Additional	Earnings Less Than	Accumulated Other Comprehensive Income	Non-controlling Interests in Consolidated	Total
	Shares	Amount	Shares	Amount	Capital	Distributions	(Loss)	Subsidiaries	Equity
Balance, December 31, 2013	52,683	$ 1,277,225	187,285	$ 7,469	$ 7,143,840	$ (1,734,839)	$ 71,537	$ 829,512	$ 7,594,744
Net income attributable to Vornado	-	-	-	-	-	82,717	-	-	82,717
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	11,579	11,579
Dividends on common shares	-	-	-	-	-	(136,761)	-	-	(136,761)
Dividends on preferred shares	-	-	-	-	-	(20,368)	-	-	(20,368)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	55	2	5,154	-	-	-	5,156
Under employees' share option plan	-	-	60	2	3,228	-	-	-	3,230
Under dividend reinvestment plan	-	-	5	-	446	-	-	-	446
Distributions:									
	-	-	-	-	-	-	-	(1,950)	(1,950)

Real Estate Fund Other	-	-	-	-	-	-	-	(142)	(142)
Deferred compensation shares and options	-	-	7	1	2,118	(340)	-	-	1,779
Change in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	13,125	-	13,125
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(8,286)	-	(8,286)
Change in value of interest rate swap	-	-	-	-	-	-	1,610	-	1,610
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(136,937)	-	-	-	(136,937)
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	(361)	-	(361)
Other	-	-	-	-	(238)	(18)	1	1	(254)
Balance, March 31, 2014	52,683	$ 1,277,225	187,412	$ 7,474	$ 7,017,611	$ (1,809,609)	$ 77,626	$ 839,000	$ 7,409,327

See notes to consolidated financial statements (unaudited).

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VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2014	**2013**
(Amounts in thousands)		
Cash Flows from Operating Activities:		
Net income	$ 98,156	$ 288,927
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	153,869	148,918
Impairment losses	20,842	1,514
Net unrealized gain on Real Estate Fund investments	(14,169)	(13,516)
Straight-lining of rental income	(13,236)	(18,868)
Distributions of income from partially owned entities	12,966	10,627
Amortization of below-market leases, net	(12,144)	(16,815)
Other non-cash adjustments	11,885	18,569
Net (gain) loss on disposition of wholly owned and partially owned assets	(9,635)	36,724
Equity in net income of partially owned entities, including Toys “R” Us	(1,979)	(22,525)
Net gains on sale of real estate	-	(202,329)
Return of capital from Real Estate Fund investments	-	56,664
Non-cash impairment loss on J.C. Penney common shares	-	39,487
Loss from the mark-to-market of J.C. Penney derivative position	-	22,540
Changes in operating assets and liabilities:		
Real Estate Fund investments	(123)	(13,668)
Accounts receivable, net	(7,624)	51,514
Prepaid assets	53,841	67,814
Other assets	(18,297)	(15,326)
Accounts payable and accrued expenses	31,554	(21,908)
Other liabilities	3,225	(3,416)
Net cash provided by operating activities	309,131	414,927
Cash Flows from Investing Activities:		
Proceeds from sales of real estate and related investments	120,270	499,369
Development costs and construction in progress	(90,653)	(35,334)
Proceeds from repayments of mortgage and mezzanine loans receivable and other	69,347	631
Additions to real estate	(53,103)	(57,460)
Restricted cash	52,256	14,149
Investments in partially owned entities	(16,633)	(39,892)
Distributions of capital from partially owned entities	1,277	5,544
Funding of J.C. Penney derivative collateral	-	(58,522)

Proceeds from sales of marketable securities	-	160,300
Return of J.C. Penney derivative collateral	-	38,900
Net cash provided by investing activities	82,761	527,685

See notes to consolidated financial statements (unaudited).

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

	For the Three Months Ended March 31,	
	2014	**2013**
(Amounts in thousands)		
Cash Flows from Financing Activities:		
Proceeds from borrowings	$ 600,000	$ 1,499,375
Repayments of borrowings	(233,198)	(2,529,836)
Dividends paid on common shares	(136,761)	(136,342)
Debt issuance and other costs	(20,752)	(9,080)
Dividends paid on preferred shares	(20,368)	(23,161)
Distributions to noncontrolling interests	(10,474)	(172,142)
Proceeds received from exercise of employee share options	3,676	1,609
Repurchase of shares related to stock compensation agreements and/or related tax withholdings	(578)	(307)
Proceeds from the issuance of preferred shares	-	290,710
Purchases of outstanding preferred units and shares	-	(262,500)
Contributions from noncontrolling interests	-	24,566
Net cash provided by (used in) financing activities	181,545	(1,317,108)
Net increase (decrease) in cash and cash equivalents	573,437	(374,496)
Cash and cash equivalents at beginning of period	583,290	960,319
Cash and cash equivalents at end of period	$ 1,156,727	$ 585,823
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest, excluding capitalized interest of $13,622 and $8,260	$ 100,209	$ 116,141
Cash payments for income taxes	$ 1,214	$ 1,825
Non-cash Investing and Financing Activities:		
Elimination of a mortgage and mezzanine loan asset and liability	$ 59,375	$ -

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"). Vornado is the sole general partner of, and owned approximately 93.9% of the common limited partnership interest in the Operating Partnership at March 31, 2014. All references to "we," "us," "our," the "Company" and "Vornado" refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

On April 11, 2014, we announced a plan to spin off our shopping center business consisting of 81 strip shopping centers and four malls into a new publicly traded REIT ("SpinCo"). The spin-off is expected to be effectuated through a 1:2 distribution of SpinCo's shares to Vornado common shareholders and Vornado Realty L.P. common unitholders, and is intended to be treated as tax-free for U.S. federal income tax purposes. We intend to file the initial registration statement on Form 10 with the Securities and Exchange Commission ("SEC") by the end of the second quarter of 2014 and expect the spin-off to be completed by the end of 2014. The transaction is subject to certain conditions, including the SEC declaring that SpinCo's registration statement is effective, filing and approval of SpinCo's listing application, receipt of third party consents, and formal approval and declaration of the distribution by Vornado's Board of Trustees. Vornado may, at any time and for any reason until the proposed transaction is complete, abandon the separation or modify or change its terms.

Vornado will retain, for disposition in the near term, 20 small retail assets which do not fit SpinCo's strategy, and the Beverly Connection and Springfield Town Center, both of which are under contract for disposition (see Note 8 – *Dispositions*).

2. Basis of Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado and its consolidated subsidiaries, including the Operating Partnership. All intercompany amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the SEC and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to current year presentation.

3. Recently Issued Accounting Literature

In June 2013, the FASB issued an update ("ASU 2013-08") to ASC Topic 946, *Financial Services - Investment Companies* ("Topic 946"). ASU 2013-08 amends the guidance in Topic 946 for determining whether an entity qualifies as an investment company and requires certain additional disclosures. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. The adoption of this update as of January 1, 2014, did not have any impact on our real estate fund and our consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

3. Recently Issued Accounting Literature – continued

In April 2014, the FASB issued an update ("ASU 2014-08") *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* to ASC Topic 205, *Presentation of Financial Statements* and ASC Topic 360, *Property Plant and Equipment.* Under ASU 2014-08, only disposals that represent a strategic shift that has (or will have) a major effect on the entity's results and operations would qualify as discontinued operations. In addition, the ASU expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. ASU 2014-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2014. We are currently evaluating the impact of ASU 2014-08 on our consolidated financial statements.

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

We are the general partner and investment manager of the Fund. The Fund is accounted for under the AICPA Investment Company Guide and its investments are reported on its balance sheet at fair value, with changes in value each period recognized in earnings. We consolidate the accounts of the Fund into our consolidated financial statements, retaining the fair value basis of accounting.

At March 31, 2014, the Fund had nine investments with an aggregate fair value of $682,002,000, or $167,582,000 in excess of cost, and had remaining unfunded commitments of $149,186,000, of which our share was $37,297,000. Below is a summary of income from the Fund for the three months ended March 31, 2014 and 2013.

(Amounts in thousands)	For the Three Months Ended March 31, 2014	2013
Net investment income	$ 3,979	$ 3,048

Net unrealized gains		14,169		13,516
Income from Real Estate Fund		18,148		16,564
Less (income) attributable to noncontrolling interests		(10,849)		(9,540)
Income from Real Estate Fund attributable to Vornado (1)	$	7,299	$	7,024

(1) Excludes management, leasing and development fees of $704 and $849 for the three months ended March 31, 2014 and 2013, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

5. Marketable Securities and Derivative Instruments

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

(Amounts in thousands)	As of March 31, 2014			As of December 31, 2013		
	Fair Value	GAAP Cost	Unrealized Gain	Fair Value	GAAP Cost	Unrealized Gain
Equity securities:						
Lexington	$ 201,496	$ 72,549	$ 128,947	$ 188,567	$ 72,549	$ 116,018
Other	3,546	59	3,487	3,350	59	3,291
	$ 205,042	$ 72,608	$ 132,434	$ 191,917	$ 72,608	$ 119,309

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

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

6. Mortgage and Mezzanine Loans Receivable

In October 2012, we acquired a 25.0% participation in a mortgage and mezzanine loan on 701 Seventh Avenue. In March 2013, we transferred at par, the 25.0% participation in the mortgage loan to a third party, for $59,375,000 in cash. The transfer did not qualify for sale accounting given our continuing interest in the mezzanine loan. Accordingly, we continued to include the 25.0% participation in the mortgage loan in "mortgage and mezzanine loans receivable" and recorded a $59,375,000 liability in "other liabilities" on our consolidated balance sheet. In January 2014, the mortgage and mezzanine loans were repaid; accordingly, the $59,375,000 asset and liability were eliminated.

In March 2014, a $30,000,000 mezzanine loan that was scheduled to mature in January 2015 was repaid.

As of March 31, 2014 and December 31, 2013, the carrying amount of mortgage and mezzanine loans receivable was $42,749,000 and $170,972,000, respectively. These loans have a weighted average interest rate of 8.7% and 11.0% at March 31, 2014 and December 31, 2013, respectively, and have maturities ranging from November 2014 to May 2016.

7. Investments in Partially Owned Entities

Toys "R" Us ("Toys")

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

In the fourth quarter of 2013, we wrote down our investment in Toys to its estimated fair value and disclosed that to the extent the fair value of our investment did not change, we would recognize a non-cash impairment loss equal to our share of Toys’ fourth quarter net earnings in our first quarter of 2014.

In the first quarter of 2014, we recognized (i) $1,847,000 of income applicable to Toys, representing management fees earned and received, and (ii) our share of the equity in earnings of Toys’ fourth quarter totaling $75,196,000 and a corresponding non-cash impairment loss of the same amount.

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

(Amounts in thousands)	Balance as of	
Balance Sheet:	**February 1, 2014**	**November 2, 2013**
Assets	$ 10,400,000	$ 11,756,000
Liabilities	9,018,000	10,437,000
Noncontrolling interests	78,000	75,000
Toys “R” Us, Inc. equity[1]	1,304,000	1,244,000
	For the Three Months Ended	
Income Statement:	**February 1, 2014**	**February 2, 2013**
Total revenues	$ 5,267,000	$ 5,770,000
Net income attributable to Toys	82,500	241,000

(1) At March 31, 2014, the carrying amount of our investment in Toys is less than our share of Toys' equity by approximately $349,759. This basis difference results primarily from non-cash impairment losses aggregating $355,953 that we have recognized through March 31, 2014. We have allocated the basis difference primarily to Toys' real estate, which is being amortized over its remaining estimated useful life.

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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 March 31, 2014, we own 1,654,068 Alexander's common shares, or approximately 32.4% of Alexander's common equity. We manage, lease and develop Alexander's properties pursuant to agreements which expire in March of each year and are automatically renewable. As of March 31, 2014, we have a $42,492,000 receivable from Alexander's for fees under these agreements.

As of March 31, 2014, the market value ("fair value" pursuant to ASC 820) of our investment in Alexander's, based on Alexander's March 31, 2014 closing share price of $360.99, was $597,102,000, or $429,978,000 in excess of the carrying amount on our consolidated balance sheet. As of March 31, 2014, the carrying amount of our investment in Alexander's, excluding amounts owed to us, exceeds our share of the equity in the net assets of Alexander's by approximately $41,873,000. 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:	**March 31, 2014**	**December 31, 2013**
Assets	$ 1,452,000	$ 1,458,000
Liabilities	1,118,000	1,124,000

Stockholders' equity	334,000	334,000
	For the Three Months Ended March 31,	
Income Statement:	**2014**	**2013**
Total revenues	$ 49,000	$ 49,000
Net income attributable to Alexander's	15,000	14,000

LNR Property LLC ("LNR")

In January 2013, we and the other equity holders of LNR entered into a definitive agreement to sell LNR for $1.053 billion, of which our share of the net proceeds was $240,474,000. The definitive agreement provided that LNR would not (i) make any cash distributions to the equity holders, including us, through the completion of the sale, which occurred on April 19, 2013, and (ii) take any of the following actions (among others) without the purchaser's approval, the lending or advancing of any money, the acquisition of assets in excess of specified amounts, or the issuance of equity interests. Notwithstanding the terms of the definitive agreement, in accordance with GAAP, we recorded our pro rata share of LNR's earnings on a one-quarter lag basis through the date of sale, which increased the carrying amount of our investment in LNR above our share of the net sales proceeds and resulted in us recognizing a $27,231,000 "other-than-temporary" impairment loss on our investment in the three months ended March 31, 2013.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

7. Investments in Partially Owned Entities – continued

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

(Amounts in thousands)	Percentage Ownership at	Balance as of	
Investments:	**March 31, 2014**	**March 31, 2014**	**December 31, 2013**
Toys ($80,062 in each period, excluding our share of Toys' other comprehensive loss/income)	32.6%	$ 75,932	$ 83,224
Alexander’s	32.4%	$ 167,124	$ 167,785
India real estate ventures	4.1%-36.5%	88,563	88,467
Partially owned office buildings (1)	Various	628,881	621,294
Other investments (2)	Various	284,428	288,897
		$ 1,168,996	$ 1,166,443

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue and others.

(2) Includes interests in Independence Plaza, Monmouth Mall, 85 10th Avenue, Fashion Center Mall, 50-70 West 93rd Street and others.

(Amounts in thousands)	Percentage Ownership at	For the Three Months Ended March 31,	
Our Share of Net Income (Loss):	**March 31, 2014**	**2014**	**2013**
Toys:	32.6%		
Equity in net earnings		$ 75,196	$ 78,542
Non-cash impairment losses		(75,196)	(78,542)
Management fees		1,847	1,759
		$ 1,847	$ 1,759
Alexander's:	32.4%		
Equity in net income		$ 4,759	$ 4,589

Management, leasing and development fees		1,626	1,487
		6,385	6,076
India real estate ventures	4.1%-36.5%	(137)	(767)
Partially owned office buildings (1)	Various	(2,395)	(582)
Other investments (2)	Various	(3,721)	(1,713)
Lexington (3)	n/a	-	(979)
LNR (see page 13 for details):	n/a		
Equity in net income		-	45,962
Impairment loss		-	(27,231)
		-	18,731
		$ 132	$ 20,766

(1)
Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue and others.

(2)
Includes interests in Independence Plaza, Monmouth Mall, 85 10th Avenue, Fashion Center Mall, 50-70 West 93rd Street and others.

(3)
In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale. The 2013 amount represents our share of Lexington's 2012 fourth quarter earnings which was recorded on a one-quarter lag basis.

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 March 31, 2014 and December 31, 2013, none of which is recourse to us.

(Amounts in thousands)	Percentage Ownership at March 31, 2014	Maturity	Interest Rate at March 31, 2014	100% of Partially Owned Entities' Debt at March 31, 2014	100% of Partially Owned Entities' Debt at December 31, 2013
Toys:					
Notes, loans and mortgages payable	32.6%	2014-2021	7.14%	$ 4,977,482	$ 5,702,247
Alexander's:					
Mortgages payable	32.4%	2015-2021	2.59%	$ 1,035,022	$ 1,049,959
India Real Estate Ventures:					
TCG Urban Infrastructure Holdings mortgages payable	25.0%	2014-2022	13.23%	$ 202,496	$ 199,021
Partially owned office buildings(1):	Various	2014-2023	5.74%	$ 3,632,588	$ 3,622,759
Other(2):	Various	2014-2023	4.56%	$ 1,705,703	$ 1,709,509

(1) Includes 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue and others.

(2) Includes Independence Plaza, Monmouth Mall, Fashion Center Mall, 50-70 West 93rd Street and others.

Based on our ownership interest in the partially owned entities above, our pro rata share of the debt of these partially owned entities was $3,953,375,000 and $4,189,403,000 at March 31, 2014 and December 31, 2013, respectively.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

8. Dispositions

Discontinued Operations

On February 24, 2014, we completed the sale of Broadway Mall in Hicksville, Long Island, New York, for $94,000,000. The sale resulted in net proceeds of $92,174,000 after closing costs.

On March 17, 2014, we entered into an agreement to sell Beverly Connection, a 335,000 square foot power shopping center in Los Angeles, California, for $260,000,000. The property is unencumbered. The sale will result in a net gain of approximately $40,000,000. The sale, which is subject to customary closing conditions, is expected to be completed in the third quarter of 2014.

We have reclassified the revenues and expenses of the properties discussed above to "income from discontinued operations" and the related assets and liabilities to "assets related to discontinued operations" and "liabilities related to discontinued operations" for all of the periods presented in the accompanying consolidated financial statements. The net gains resulting from the sale of these properties are included in "income from discontinued operations" on our consolidated statements of income. The tables below set forth the assets and liabilities related to discontinued operations at March 31, 2014 and December 31, 2013 and their combined results of operations for the three months ended March 31, 2014 and 2013.

(Amounts in thousands)	Assets Related to Discontinued Operations as of		Liabilities Related to Discontinued Operations as of	
	March 31, 2014	**December 31, 2013**	**March 31, 2014**	**December 31, 2013**
Beverly Connection	$ 207,575	$ 208,458	$ -	$ -
Broadway Mall	-	106,164	-	13,950
Total	$ 207,575	$ 314,622	$ -	$ 13,950

(Amounts in thousands)	For the Three Months Ended March 31,	
	2014	**2013**

Total revenues	$ 8,283	$ 25,990
Total expenses	5,550	20,043
	2,733	5,947
Impairment losses	(842)	(1,514)
Net gain on sale of Green Acres Mall	-	202,275
Net gain on sale of other real estate	-	54
Income from discontinued operations	$ 1,891	$ 206,762

Other

On March 2, 2014, we entered into an agreement to transfer upon completion, the redeveloped Springfield Town Center, a 1,350,000 square foot mall located in Springfield, Fairfax County, Virginia, to Pennsylvania Real Estate Investment Trust (NYSE: PEI) ("PREIT") in exchange for $465,000,000 comprised of $340,000,000 of cash and $125,000,000 of PREIT operating partnership units. In connection therewith, we recorded a non-cash impairment loss of $20,000,000 in the first quarter of 2014, which is included in "impairment losses and acquisition related costs" on our consolidated statements of income. The redevelopment is expected to be completed in the fourth quarter of 2014. The closing will be no later than March 31, 2015.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

9. Identified Intangible Assets and Liabilities

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

	Balance as of	
(Amounts in thousands)	**March 31, 2014**	**December 31, 2013**
Identified intangible assets:		
Gross amount	$ 589,973	$ 589,961
Accumulated amortization	(290,214)	(277,998)
Net	$ 299,759	$ 311,963
Identified intangible liabilities (included in deferred revenue):		
Gross amount	$ 850,765	$ 856,933
Accumulated amortization	(367,972)	(360,398)
Net	$ 482,793	$ 496,535

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of $11,682,000 and $16,177,000 for the three months ended March 31, 2014 and 2013, respectively. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding years commencing January 1, 2015 is as follows:

(Amounts in thousands)	
2015	$ 39,972
2016	38,631
2017	34,929
2018	33,309
2019	30,072

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was $9,325,000 and $25,213,000 for the three months ended March 31, 2014 and 2013, respectively. Estimated annual amortization of all other identified intangible assets including acquired in-place leases, customer relationships, and third party contracts for each of the five succeeding years commencing January 1, 2015 is as follows:

(Amounts in thousands)		
2015	$	23,254
2016		20,237
2017		16,821
2018		12,441
2019		11,535

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 $858,000 and $1,102,000 for the three months ended March 31, 2014 and 2013, respectively. Estimated annual amortization of these below-market leases, net of above-market leases for each of the five succeeding years commencing January 1, 2015 is as follows:

(Amounts in thousands)		
2015	$	3,430
2016		3,430
2017		3,430
2018		3,430
2019		3,430

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

10. Debt

On January 31, 2014, we completed a $600,000,000 loan secured by our 220 Central Park South development site. The loan bears interest at LIBOR plus 2.75% (2.90% at March 31, 2014) and matures in January 2016, with three one-year extension options.

On April 16, 2014, we completed a $350,000,000 refinancing of 909 Third Avenue, a 1.3 million square foot Manhattan office building. The seven-year interest only loan bears interest at 3.91% and matures in May 2021. We realized net proceeds of approximately $145,000,000 after repaying the existing 5.64%, $193,000,000 mortgage, defeasance costs and other closing costs.

The following is a summary of our debt:

(Amounts in thousands)	Interest Rate at March 31, 2014	Balance at March 31, 2014		Balance at December 31, 2013	
Mortgages Payable:					
Fixed rate	4.56%	$	7,546,030	$	7,563,133
Variable rate	2.55%		1,367,328		768,860
	4.25%	$	8,913,358	$	8,331,993
Unsecured Debt:					
Senior unsecured notes	5.67%	$	1,343,442	$	1,350,855
Revolving credit facility debt	1.31%		88,138		295,870
	5.41%	$	1,431,580	$	1,646,725

11. Redeemable Noncontrolling Interests

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

(Amounts in thousands)		
Balance at December 31, 2012	$	944,152
Net income		14,719
Other comprehensive income		8,299
Distributions		(8,946)
Redemption of Class A units for common shares, at redemption value		(13,404)
Adjustments to carry redeemable Class A units at redemption value		44,998
Other, net		5,264
Balance at March 31, 2013	$	995,082
Balance at December 31, 2013	$	1,003,620
Net income		3,860
Other comprehensive income		361
Distributions		(8,383)
Redemption of Class A units for common shares, at redemption value		(5,156)
Adjustments to carry redeemable Class A units at redemption value		136,937
Other, net		9,592
Balance at March 31, 2014	$	1,140,831

As of March 31, 2014 and December 31, 2013, the aggregate redemption value of redeemable Class A units was $1,139,831,000 and $1,002,620,000, 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 as of March 31, 2014 and December 31, 2013.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

12. Accumulated Other Comprehensive Income

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

	For the Three Months Ended March 31, 2013				
(Amounts in thousands)	Total	Securities available-for-sale	Pro rata share of nonconsolidated subsidiaries' OCI	Interest rate swap	Other
Balance as of December 31, 2012	$ (18,946)	$ 19,432	$ 11,313	$ (50,065)	$ 374
OCI before reclassifications	139,899	148,789	(3,647)	2,523	(7,766)
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	139,899	148,789	(3,647)	2,523	(7,766)
Balance as of March 31, 2013	$ 120,953	$ 168,221	$ 7,666	$ (47,542)	$ (7,392)

	For the Three Months Ended March 31, 2014				
(Amounts in thousands)	Total	Securities available-for-sale	Pro rata share of nonconsolidated subsidiaries' OCI	Interest rate swap	Other
Balance as of December 31, 2013	$ 71,537	$ 119,309	$ (11,501)	$ (31,882)	$ (4,389)
OCI before reclassifications	6,089	13,125	(8,286)	1,610	(360)
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	6,089	13,125	(8,286)	1,610	(360)
Balance as of March 31, 2014	$ 77,626	$ 132,434	$ (19,787)	$ (30,272)	$ (4,749)

13. Variable Interest Entities ("VIEs")

We do not have any consolidated VIEs. At March 31, 2014 and December 31, 2013, we have unconsolidated VIEs comprised of our investments in the entities that own the Warner Building and Independence Plaza. We do not consolidate these entities because we are not the primary beneficiary and the nature of our involvement in the activities of these entities does not give us power over decisions that significantly affect these entities' economic performance. We account for our investment in these entities under the equity method. As of March 31, 2014 and December 31, 2013, the net carrying amount of our investment in these entities was $148,120,000, and $152,929,000, respectively, and our maximum exposure to loss in these entities is limited to our investment.

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 on a Recurring Basis

Financial assets and liabilities that are measured at fair value on our consolidated balance sheets consist of (i) marketable securities, (ii) Real Estate Fund investments, (iii) the assets in our deferred compensation plan (for which there is a corresponding liability on our consolidated balance sheet), (iv) interest rate swaps and (v) mandatorily redeemable instruments (Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units). The tables below aggregate the fair values of these financial assets and liabilities by their levels in the fair value hierarchy at March 31, 2014 and December 31, 2013, respectively.

		As of March 31, 2014		
(Amounts in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Marketable securities	$ 205,042	$ 205,042	$ -	$ -
Real Estate Fund investments (75% of which is attributable to noncontrolling interests)	682,002	-	-	682,002

Deferred compensation plan assets (included in other assets)	121,970	54,343	-	67,627
Total assets	$1,009,014	$ 259,385	$ -	$ 749,629
Mandatorily redeemable instruments (included in other liabilities)	$ 55,097	$ 55,097	$ -	$ -
Interest rate swap (included in other liabilities)	30,272	-	30,272	-
Total liabilities	$ 85,369	$ 55,097	$ 30,272	$ -

	As of December 31, 2013			
(Amounts in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Marketable securities	$ 191,917	$ 191,917	$ -	$ -
Real Estate Fund investments (75% of which is attributable to noncontrolling interests)	667,710	-	-	667,710
Deferred compensation plan assets (included in other assets)	116,515	47,733	-	68,782
Total assets	$ 976,142	$ 239,650	$ -	$ 736,492
Mandatorily redeemable instruments (included in other liabilities)	$ 55,097	$ 55,097	$ -	$ -
Interest rate swap (included in other liabilities)	31,882	-	31,882	-
Total liabilities	$ 86,979	$ 55,097	$ 31,882	$ -

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

14. Fair Value Measurements – continued

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

Real Estate Fund Investments

At March 31, 2014, our Real Estate Fund had nine investments with an aggregate fair value of $682,002,000, or $167,582,000 in excess of cost. These investments are classified as Level 3. We use a discounted cash flow valuation technique to estimate the fair value of each of these investments, which is updated quarterly by personnel responsible for the management of each investment and reviewed by senior management at each reporting period. The discounted cash flow valuation technique requires us to estimate cash flows for each investment over the anticipated holding period, which currently ranges from 0.3 to 6.3 years. Cash flows are derived from property rental revenue (base rents plus reimbursements) less operating expenses, real estate taxes and capital and other costs, plus projected sales proceeds in the year of exit. Property rental revenue is based on leases currently in place and our estimates for future leasing activity, which are based on current market rents for similar space plus a projected growth factor. Similarly, estimated operating expenses and real estate taxes are based on amounts incurred in the current period plus a projected growth factor for future periods. Anticipated sales proceeds at the end of an investment's expected holding period are determined based on the net cash flow of the investment in the year of exit, divided by a terminal capitalization rate, less estimated selling costs.

The fair value of each property is calculated by discounting the future cash flows (including the projected sales proceeds), using an appropriate discount rate and then reduced by the property's outstanding debt, if any, to determine the fair value of the equity in each investment. Significant unobservable quantitative inputs used in determining the fair value of each investment include capitalization rates and discount rates. These rates are based on the location, type and nature of each property, and current and anticipated market conditions, which are derived from original underwriting assumptions, industry publications and from the experience of our Acquisitions and Capital Markets departments. Significant unobservable quantitative inputs in the table below were utilized in determining the fair value of these Fund investments at March 31, 2014.

Unobservable Quantitative Input	Range	Weighted Average (based on fair value of investments)
Discount rates	12.0% to 17.5%	13.9%
Terminal capitalization rates	5.0% to 6.1%	5.7%

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

The table below summarizes the changes in the fair value of Fund investments that are classified as Level 3, for the three months ended March 31, 2014 and 2013.

	Real Estate Fund Investments For the Three Months Ended March 31,	
(Amounts in thousands)	**2014**	**2013**
Beginning balance	$ 667,710	$ 600,786
Purchases	123	13,668
Sales/Returns	-	(56,664)
Net unrealized gains	14,169	13,516
Ending balance	$ 682,002	$ 571,306

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

14. Fair Value Measurements – continued

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

Deferred Compensation Plan Assets

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

The table below summarizes the changes in the fair value of Deferred Compensation Plan Assets that are classified as Level 3, for the three months ended March 31, 2014 and 2013.

	Deferred Compensation Plan Assets For the Three Months Ended March 31,	
(Amounts in thousands)	**2014**	**2013**
Beginning balance	$ 68,782	$ 62,631
Purchases	1,644	2,707
Sales	(5,124)	(2,697)
Realized and unrealized gain	2,172	1,354
Other, net	153	1,015
Ending balance	$ 67,627	$ 65,010

Fair Value Measurements on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis on our consolidated balance sheets consist primarily of our investment in Toys "R" Us and real estate assets that were written-down to estimated fair value at March 31, 2014 and December 31, 2013. The fair values of these assets were determined using widely accepted valuation techniques, including (i) discounted cash flow analysis, which considers, among other things, leasing assumptions, growth rates, discount rates and terminal capitalization rates, (ii) income capitalization approach, which considers prevailing market capitalization rates, and (iii) comparable sales activity. Generally, we consider multiple valuation techniques when measuring fair values but in certain circumstances, a single valuation technique may be appropriate. The tables below aggregate the fair values of these assets by their levels in the fair value hierarchy.

	As of March 31, 2014			
(Amounts in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Real estate assets	$ 341,660	$ -	$ -	$ 341,660
Investment in Toys"R" Us	75,932	-	-	75,932
Total assets	$ 417,592	$ -	$ -	$ 417,592
	As of December 31, 2013			
(Amounts in thousands)	**Total**	**Level 1**	**Level 2**	**Level 3**
Real estate assets	$ 354,351	$ -	$ -	$ 354,351
Investment in Toys "R" Us	83,224	-	-	83,224
Total assets	$ 437,575	$ -	$ -	$ 437,575

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

14. Fair Value Measurements – continued

Financial Assets and Liabilities not Measured at Fair Value

Financial assets and liabilities that are not measured at fair value on our consolidated balance sheets include cash equivalents (primarily money market funds, which invest in obligations of the United States government), mortgage and mezzanine loans receivable and our secured and unsecured debt. Estimates of the fair value of these instruments are determined by the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate, which is provided by a third-party specialist. For floating rate debt, we use forward rates derived from observable market yield curves to project the expected cash flows we would be required to make under the instrument. The fair value of cash equivalents and borrowings under our revolving credit facility is classified as Level 1, and the fair value of our mortgage and mezzanine loans receivable is classified as Level 3. The fair value of our secured and unsecured debt are classified as Level 2. The table below summarizes the carrying amounts and fair value of these financial instruments as of March 31, 2014 and December 31, 2013.

	As of March 31, 2014		As of December 31, 2013	
(Amounts in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash equivalents	$ 922,872	$ 923,000	$ 295,000	$ 295,000
Mortgage and mezzanine loans receivable	42,749	43,000	170,972	171,000
	$ 965,621	$ 966,000	$ 465,972	$ 466,000
Debt:				
Mortgages payable	$ 8,913,358	$ 8,763,000	$ 8,331,993	$ 8,104,000
Senior unsecured notes	1,343,442	1,398,000	1,350,855	1,402,000
Revolving credit facility debt	88,138	88,000	295,870	296,000
	$ 10,344,938	$ 10,249,000	$ 9,978,718	$ 9,802,000

15. Incentive Compensation

Our 2010 Omnibus Share Plan (the "Plan") provides for grants of incentive and non-qualified stock options, restricted stock, restricted Operating Partnership units and out-performance plan awards to certain of our employees and officers. We account for all stock-based compensation in accordance with ASC 718, *Compensation – Stock Compensation*. Stock-based compensation expense was $11,024,000 and $7,466,000 in the three months ended March 31, 2014 and 2013, respectively.

On January 10, 2014, the Compensation Committee approved the 2014 Outperformance Plan, a multi-year, performance-based equity compensation plan and related form of award agreement (the "2014 OPP"). Under the 2014 OPP, participants have the opportunity to earn compensation payable in the form of operating partnership units during a three-year performance measurement period, if and only if we outperform a predetermined total shareholder return ("TSR") and/or outperform the market with respect to relative TSR. Awards under the 2014 OPP may be earned if we (i) achieve a TSR level greater than 7% per annum, or 21% over the three-year performance measurement period (the "Absolute Component"), and/or (ii) achieve a TSR above that of the SNL US REIT Index (the "Index") over a three-year performance measurement period (the "Relative Component"). To the extent awards would be earned under the Absolute Component but we underperform the Index, such awards earned under the Absolute Component would be reduced (and potentially fully negated) based on the degree to which we underperform the Index. In certain circumstances, in the event we outperform the Index but awards would not otherwise be earned under the Absolute Component, awards may be increased under the Relative Component. To the extent awards would otherwise be earned under the Relative Component but we fail to achieve at least a 6% per annum absolute TSR, such awards earned under the Relative Component would be reduced based on our absolute TSR, with no awards being earned in the event our TSR during the applicable measurement period is 0% or negative, irrespective of the degree to which we may outperform the Index. If the designated performance objectives are achieved, OPP Units are also subject to time-based vesting requirements. Awards earned under the 2014 OPP vest 33% in year three, 33% in year four and 34% in year five. Dividends on awards earned accrue during the performance measurement period. In addition, our executive officers (for the purposes of Section 16 of the Exchange Act) are required to hold any earned OPP awards (or related equity) for at least one year following vesting.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

16. Fee and Other Income

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

(Amounts in thousands)	For the Three Months Ended March 31, 2014	2013
BMS cleaning fees	$ 18,956	$ 16,664
Signage revenue	9,318	6,481
Management and leasing fees	6,214	5,253
Lease termination fees [(1)]	3,793	59,968
Other income	7,647	8,447
	$ 45,928	$ 96,813

(1) 2013 includes $59,599 of income pursuant to a settlement agreement with Stop & Shop.

Management and leasing fees include management fees from Interstate Properties, a related party, of $134,000 and $203,000 for the three months ended March 31, 2014 and 2013, respectively. The above table excludes fee income from partially owned entities, which is typically included in "income from partially owned entities" (see Note 7 – *Investments in Partially Owned Entities*).

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

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

(Amounts in thousands)	For the Three Months Ended March 31, 2014	2013
Mark-to-market of investments in our deferred compensation plan [(1)]	$ 4,400	$ 3,446
Dividends and interest on marketable securities	3,106	2,770
Interest on mezzanine loans receivable	2,384	5,077

Non-cash impairment loss on J.C. Penney common shares	-	(39,487)
Loss from the mark-to-market of J.C. Penney derivative position	-	(22,540)
Other, net	2,003	1,659
	$ 11,893	$ (49,075)

(1) This income is entirely offset by the expense resulting from the mark-to-market of the deferred compensation plan liability, which is included in "general and administrative" expense.

18. Interest and Debt Expense

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

(Amounts in thousands)	For the Three Months Ended March 31, 2014	2013
Interest expense	$ 118,252	$ 123,228
Amortization of deferred financing costs	4,812	5,378
Capitalized interest	(13,622)	(8,260)
	$ 109,442	$ 120,346

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

19. Income Per Share

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

(Amounts in thousands, except per share amounts)	For the Three Months Ended March 31, 2014	2013
Numerator:		
Income from continuing operations, net of income attributable to noncontrolling interests	$ 80,936	$ 67,986
Income from discontinued operations, net of income attributable to noncontrolling interests	1,781	194,936
Net income attributable to Vornado	82,717	262,922
Preferred share dividends	(20,368)	(21,702)
Preferred share redemptions	-	(9,230)
Net income attributable to common shareholders	62,349	231,990
Earnings allocated to unvested participating securities	(30)	(56)
Numerator for basic income per share	62,319	231,934
Impact of assumed conversions:		
Convertible preferred share dividends	-	28
Numerator for diluted income per share	$ 62,319	$ 231,962
Denominator:		
Denominator for basic income per share – weighted average shares	187,307	186,752
Effect of dilutive securities[1]:		
Employee stock options and restricted share awards	933	727
Convertible preferred shares	-	50
Denominator for diluted income per share – weighted average shares and assumed conversions	188,240	187,529

INCOME PER COMMON SHARE – BASIC:				
Income from continuing operations, net	$	0.32	$	0.20
Income from discontinued operations, net		0.01		1.04
Net income per common share	$	0.33	$	1.24
INCOME PER COMMON SHARE – DILUTED:				
Income from continuing operations, net	$	0.32	$	0.20
Income from discontinued operations, net		0.01		1.04
Net income per common share	$	0.33	$	1.24

(1) The effect of dilutive securities in the three months ended March 31, 2014 and 2013 excludes an aggregate of 11,326 and 11,997 weighted average common share equivalents, respectively, as their effect was anti-dilutive.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

20. Commitments and Contingencies

Insurance

We maintain general liability insurance with limits of $300,000,000 per occurrence and all risk property and rental value insurance with limits of $2.0 billion per occurrence, with sub-limits for certain perils such as floods. Our California properties have earthquake insurance with coverage of $180,000,000 per occurrence, subject to a deductible in the amount of 5% of the value of the affected property, up to a $180,000,000 annual aggregate. We maintain coverage for terrorism acts with limits of $4.0 billion per occurrence and in the aggregate, including terrorism involving nuclear, biological, chemical and radiological ("NBCR") terrorism events, as defined by the Terrorism Risk Insurance Program Reauthorization Act, which expires in December 2014.

Penn Plaza Insurance Company, LLC ("PPIC"), our wholly owned consolidated subsidiary, acts as a re-insurer with respect to a portion of all risk property and rental value insurance and a portion of our earthquake insurance coverage, and as a direct insurer for coverage for NBCR acts. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies and the federal government with no direct exposure to PPIC. For NBCR acts, PPIC is responsible for a deductible of $2,150,000 and 15% of the balance of a covered loss and the federal government is responsible for the remaining 85% of a covered loss. We are ultimately responsible for any loss incurred by PPIC.

We continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. However, we cannot anticipate what coverage will be available on commercially reasonable terms in the future.

Our debt instruments, consisting of mortgage loans secured by our properties which are non-recourse to us, senior unsecured notes and revolving credit agreements contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further, if lenders insist on greater coverage than we are able to obtain it could adversely affect our ability to finance our properties and expand our portfolio.

Other Commitments and Contingencies

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

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

Our mortgage loans are non-recourse to us. However, in certain cases we have provided guarantees or master leased tenant space. These guarantees and master leases terminate either upon the satisfaction of specified circumstances or repayment of the underlying loans. As of March 31, 2014, the aggregate dollar amount of these guarantees and master leases is approximately $420,000,000.

At March 31, 2014, $38,477,000 of letters of credit were outstanding under one of our revolving credit facilities. Our revolving credit facilities contain financial covenants that require us to maintain minimum interest coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our revolving credit facilities also contain customary conditions precedent to borrowing, including representations and warranties, and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

As of March 31, 2014, we expect to fund additional capital to certain of our partially owned entities aggregating approximately $125,000,000.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

21. Segment Information

Below is a summary of net income and a reconciliation of net income to EBITDA[1] by segment for the three months ended March 31, 2014 and 2013.

(Amounts in thousands)	For the Three Months Ended March 31, 2014					
	Total	New York	Washington, DC	Retail Properties	Toys	Other
Total revenues	$ 660,618	$ 371,282	$ 135,278	$ 88,805	$ -	$ 65,253
Total expenses	494,984	241,999	89,572	82,231	-	81,182
Operating income (loss)	165,634	129,283	45,706	6,574	-	(15,929)
Income (loss) from partially owned entities, including Toys	1,979	1,566	(1,266)	538	1,847	(706)
Income from Real Estate Fund	18,148	-	-	-	-	18,148
Interest and other investment income, net	11,893	1,475	36	9	-	10,373
Interest and debt expense	(109,442)	(42,839)	(19,347)	(9,217)	-	(38,039)
Net gain on disposition of wholly owned and partially owned assets	9,635	-	-	-	-	9,635
Income (loss) before income taxes	97,847	89,485	25,129	(2,096)	1,847	(16,518)
Income tax (expense) benefit	(1,582)	(969)	199	(731)	-	(81)
Income (loss) from continuing operations	96,265	88,516	25,328	(2,827)	1,847	(16,599)
Income from discontinued	1,891	-	-	1,714	-	177

operations						
Net income (loss)	98,156	88,516	25,328	(1,113)	1,847	(16,422)
Less net income attributable to noncontrolling interests	(15,439)	(1,405)	-	(17)	-	(14,017)
Net income (loss) attributable to Vornado	82,717	87,111	25,328	(1,130)	1,847	(30,439)
Interest and debt expense(2)	170,952	58,068	22,798	10,351	38,549	41,186
Depreciation and amortization(2)	196,339	87,587	36,150	25,328	26,924	20,350
Income tax expense (benefit)(2)	19,831	1,032	(189)	731	18,077	180
EBITDA(1)	$ 469,839	$ 233,798 (3)	$ 84,087 (4)	$ 35,280 (5)	$ 85,397	$ 31,277 (6)

(Amounts in thousands)	For the Three Months Ended March 31, 2013					
	Total	New York	Washington, DC	Retail Properties	Toys	Other
Total revenues	$ 718,713	$ 364,801	$ 134,731	$ 142,212	$ -	$ 76,969
Total expenses	468,419	242,927	85,197	48,580	-	91,715
Operating income (loss)	250,294	121,874	49,534	93,632	-	(14,746)
Income (loss) from partially owned entities, including Toys	22,525	5,605	(2,093)	901	1,759	16,353
Income from Real Estate Fund	16,564	-	-	-	-	16,564
Interest and other investment (loss) income, net	(49,075)	1,165	76	51	-	(50,367)
Interest and debt expense	(120,346)	(40,431)	(28,250)	(10,286)	-	(41,379)
Net loss on disposition of wholly owned and partially owned assets	(36,724)	-	-	-	-	(36,724)
Income (loss) before income taxes	83,238	88,213	19,267	84,298	1,759	(110,299)
Income tax expense	(1,073)	(272)	(378)	-	-	(423)
Income (loss) from continuing operations	82,165	87,941	18,889	84,298	1,759	(110,722)

Income (loss) from discontinued operations	206,762	2,728		-		205,382		-	(1,348)	
Net income (loss)	288,927	90,669		18,889		289,680		1,759	(112,070)	
Less net income attributable to noncontrolling interests	(26,005)	(1,581)		-		(96)		-	(24,328)	
Net income (loss) attributable to Vornado	262,922	89,088		18,889		289,584		1,759	(136,398)	
Interest and debt expense(2)	188,780	49,689		31,753		14,223		43,182	49,933	
Depreciation and amortization(2)	194,185	78,413		35,148		18,519		37,674	24,431	
Income tax expense(2)	60,759	347		454		-		59,346	612	
EBITDA(1)	$ 706,646	$ 217,537	(3)	$ 86,244	(4)	$ 322,326	(5)	$ 141,961	$ (61,422)	(6)

See notes on the following page.

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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 elements of "New York" EBITDA are summarized below.

	For the Three Months Ended March 31,	
(Amounts in thousands)	**2014**	**2013**
Office	$ 157,879	$ 146,296
Retail	66,195	60,382
Alexander's	10,430	10,541
Hotel Pennsylvania	(706)	318
Total New York	$ 233,798	$ 217,537

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

	For the Three Months Ended March 31,	
(Amounts in thousands)	**2014**	**2013**
Office, excluding the Skyline Properties	$ 67,257	$ 67,107
Skyline properties	6,499	8,162
Total Office	73,756	75,269
Residential	10,331	10,975
Total Washington, DC	$ 84,087	$ 86,244

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

	For the Three Months Ended March 31,	
(Amounts in thousands)	**2014**	**2013**
Strip shopping centers[(a)]	$ 41,321	$ 103,361
Regional malls[(b)]	(6,041)	218,965
Total Retail properties	$ 35,280	$ 322,326

(a) The three months ended March 31, 2013, includes $59,599 of income pursuant to a settlement agreement with Stop & Shop.

(b) The three months ended March 31, 2014, includes a $20,000 non-cash impairment loss on the Springfield Town Center. The three months ended March 31, 2013, includes a $202,275 net gain on sale of Green Acres Mall.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

21. Segment Information – continued

Notes to preceding tabular information - continued:

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

(Amounts in thousands)	For the Three Months Ended March 31, 2014	2013
Our share of Real Estate Fund:		
Income before net realized/unrealized gains	$ 1,982	$ 1,462
Net unrealized gains	3,542	3,379
Carried interest	1,775	2,183
Total	7,299	7,024
Merchandise Mart Building and trade shows	19,087	16,854
555 California Street	12,066	10,629
India real estate ventures	1,824	1,759
LNR[(a)]	-	20,443
Lexington[(b)]	-	6,931
Other investments	4,919	3,117
	45,195	66,757
Corporate general and administrative expenses[(c)]	(25,982)	(22,756)
Investment income and other, net[(c)]	8,073	11,336
Net gain on sale of a land parcel and residential condominiums	9,635	-
Acquisition related costs	(1,784)	(601)
Non-cash impairment loss on J.C. Penney common shares	-	(39,487)
Loss on sale of J.C. Penney common shares	-	(36,800)
Loss from the mark-to-market of J.C. Penney derivative position	-	(22,540)
Merchandise Mart reduction-in-force and severance costs	-	(2,612)
Net income attributable to noncontrolling interests in the Operating Partnership	(3,848)	(13,933)
Preferred unit distributions of the Operating Partnership	(12)	(786)
	$ 31,277	$ (61,422)

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

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

(c) The amounts in these captions (for this table only) exclude income (expense) from the mark-to-market of our deferred compensation plan.

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Trustees

Vornado Realty Trust

New York, New York

We have reviewed the accompanying consolidated balance sheet of Vornado Realty Trust (the “Company”) as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the three-month periods ended March 31, 2014 and 2013. These interim financial statements are the responsibility of the Company’s management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Vornado Realty Trust as of December 31, 2013, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein); and in our report dated February 24, 2014, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2013 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey

May 5, 2014

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

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

Certain statements contained in this Quarterly Report constitute forward looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as “approximates,” “believes,” “expects,” “anticipates,” “estimates,” “inte “plans,” “would,” “may” or other similar expressions in this Quarterly Report on Form 10 Q. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see “Item 1A. Risk Factors” in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

Management’s Discussion and Analysis of Financial Condition and Results of Operations includes a discussion of our consolidated financial statements for the three months ended March 31, 2014. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three months ended March 31, 2014 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to current year presentation.

Overview

Business Objective and Operating Strategy

Our business objective is to maximize shareholder value, which we measure by the total return provided to our shareholders. Below is a table comparing our performance to the FTSE NAREIT Office REIT Index (“Office REIT”) and the Morgan Stanley REIT Index (“RMS”) for the following periods ended March 31, 2014.

		Total Return[1]	
	Vornado	**Office REIT**	**RMS**
Three-month	11.9%	11.2%	10.0%
One-year	21.8%	8.9%	4.3%
Three-year	26.2%	23.6%	35.5%
Five-year	261.1%	218.9%	254.3%
Ten-year	147.6%	89.4%	120.0%

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

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

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

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

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

On April 11, 2014, we announced a plan to spin off our shopping center business consisting of 81 strip shopping centers and four malls into a new publicly traded REIT (“SpinCo”). The spin-off is expected to be effectuated through a 1:2 distribution of SpinCo's shares to Vornado common shareholders and Vornado Realty L.P. common unitholders, and is intended to be treated as tax-free for U.S. federal income tax purposes. We intend to file the initial registration statement on Form 10 with the Securities and Exchange Commission (“SEC”) by the end of the second quarter of 2014 and expect the spin-off to be completed by the end of 2014. The transaction is subject to certain conditions, including the SEC declaring that SpinCo’s registration statement is effective, filing and approval of SpinCo’s listing application, receipt of third party consents, and formal approval and declaration of the distribution by Vornado’s Board of Trustees. Vornado may, at any time and for any reason until the proposed transaction is complete, abandon the separation or modify or change its terms.

Vornado will retain, for disposition in the near term, 20 small retail assets which do not fit SpinCo’s strategy, and the Beverly Connection and Springfield Town Center, both of which are under contract for disposition.

Overview – continued

Quarter Ended March 31, 2014 Financial Results Summary

Net income attributable to common shareholders for the quarter ended March 31, 2014 was $62,349,000, or $0.33 per diluted share, compared to $231,990,000, or $1.24 per diluted share for the quarter ended March 31, 2013. Net income for the quarters ended March 31, 2014 and 2013 include $20,842,000 and $5,164,000, respectively of real estate impairment losses. The quarter ended March 31, 2013 also includes $202,794,000 of net gains on sale of real estate. In addition, the quarters ended March 31, 2014 and 2013 include certain other items that affect comparability, which are listed in the table below. The aggregate of net gains on sale of real estate, real estate impairment losses and the items in the table below, net of amounts attributable to noncontrolling interests, decreased net income attributable to common shareholders for the quarter ended March 31, 2014 by $7,942,000, or $0.04 per diluted share and increased net income attributable to common shareholders for the quarter ended March 31, 2013 by $157,880,000 or $0.84 per diluted share.

Funds From Operations attributable to common shareholders plus assumed conversions ("FFO") for the quarter ended March 31, 2014 was $247,079,000, or $1.31 per diluted share, compared to $201,820,000, or $1.08 per diluted share for the prior year's quarter. FFO for the quarters ended March 31, 2014 and 2013 include certain items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, increased FFO for the quarter ended March 31, 2014 by $20,197,000, or $0.11 per diluted share, and decreased FFO for the quarter ended March 31, 2013 by $9,820,000, or $0.05 per diluted share.

	For the Three Months Ended March 31,	
(Amounts in thousands)	**2014**	**2013**
Items that affect comparability income (expense):		
Toys "R" Us FFO (including impairment losses of $75,196 and $78,542 respectively)	$ 9,267	$ 16,684
Net gain on sale of a land parcel and residential condominiums	9,635	-
FFO from discontinued operations, including LNR in 2013	4,139	27,951
Losses from the mark-to-market, impairment and disposition of investment in J.C. Penney	-	(98,827)
Stop & Shop litigation settlement income	-	59,599
Preferred share redemptions	-	(9,230)
Merchandise Mart reduction-in-force and severance costs	-	(2,612)
Other, net	(1,784)	(3,964)
	21,257	(10,399)

Noncontrolling interests' share of above adjustments		(1,060)		579
Items that affect comparability, net	$	20,197	$	(9,820)

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

Same Store EBITDA:	**New York**		**Washington, DC**	**Retail Properties**
March 31, 2014 vs. March 31, 2013				
GAAP basis	6.2%	(1)	(2.5%)	2.2%
Cash basis	10.1%	(1)	0.5%	2.4%
March 31, 2014 vs. December 31, 2013				
GAAP basis	(4.1%)	(2)	0.1%	0.2%
Cash basis	(2.7%)	(2)	0.9%	1.3%

(1) Excluding the Hotel Pennsylvania, same store EBITDA increased by 6.7% and 10.7% on a GAAP basis and cash basis, respectively.

(2) Excluding the Hotel Pennsylvania, same store EBITDA increased by 1.1% and 3.4% on a GAAP basis 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

2014 Dispositions

On February 24, 2014, we completed the sale of Broadway Mall in Hicksville, Long Island, New York for $94,000,000. The sale resulted in net proceeds of $92,174,000 after closing costs.

On March 2, 2014, we entered into an agreement to transfer upon completion, the redeveloped Springfield Town Center, a 1,350,000 square foot mall located in Springfield, Fairfax County, Virginia, to Pennsylvania Real Estate Investment Trust (NYSE: PEI) ("PREIT") in exchange for $465,000,000 comprised of $340,000,000 of cash and $125,000,000 of PREIT operating partnership units. The redevelopment is expected to be completed in the fourth quarter of 2014. The closing will be no later than March 31, 2015.

On March 17, 2014, we entered into an agreement to sell Beverly Connection, a 335,000 square foot power shopping center in Los Angeles, California, for $260,000,000. The property is unencumbered. The sale, which is subject to customary closing conditions, is expected to be completed in the third quarter of 2014.

2014 Financings

On January 31, 2014, we completed a $600,000,000 loan secured by our 220 Central Park South development site. The loan bears interest at LIBOR plus 2.75% (2.90% at March 31, 2014) and matures in January 2016, with three one-year extension options.

On April 16, 2014, we completed a $350,000,000 refinancing of 909 Third Avenue, a 1.3 million square foot Manhattan office building. The seven-year interest only loan bears interest at 3.91% and matures in May 2021. We realized net proceeds of approximately $145,000,000 after repaying the existing 5.64%, $193,000,000 mortgage, defeasance costs and other closing costs.

Recently Issued Accounting Literature

In June 2013, the FASB issued an update (“ASU 2013-08”) to ASC Topic 946, *Financial Services - Investment Companies* (“Topic 946”). ASU 2013-08 amends the guidance in Topic 946 for determining whether an entity qualifies as an investment company and requires certain additional disclosures. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. The adoption of this update as of January 1, 2014, did not have any impact on our real estate fund and our consolidated financial statements.

In April 2014, the FASB issued an update (“ASU 2014-08”) *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* to ASC Topic 205, *Presentation of Financial Statements* and ASC Topic 360, *Property Plant and Equipment*. Under ASU 2014-08, only disposals that represent a strategic shift that has (or will have) a major effect on the entity’s results and operations would qualify as discontinued operations. In addition, the ASU expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. ASU 2014-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2014. We are currently evaluating the impact of ASU 2014-08 on our consolidated financial statements.

Critical Accounting Policies

A summary of our critical accounting policies is included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2013 in Management’s Discussion and Analysis of Financial Condition. There have been no significant changes to our policies during 2014.

Overview - continued

Leasing Activity:

The leasing activity and related statistics in the table below are based on leases signed during the period and are not intended to coincide with the commencement of rental revenue in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Second generation relet space represents square footage that has not been vacant for more than nine months and tenant improvements and leasing commissions are based on our share of square feet leased during the period.

	New York		Washington, DC	Retail Properties	
(Square feet in thousands)	Office	Retail	Office	Strips	Malls
Quarter Ended March 31, 2014					
Total square feet leased	947	11	357 (3)	233	25
Our share of square feet leased:	806	11	342 (3)	233	21
Initial rent (1)	$ 62.39	$ 121.16	$ 42.49	$ 18.15	$ 33.18
Weighted average lease term (years)	10.7	14.9	8.7	6.1	5.7
Second generation relet space:					
Square feet	565	10	211	207	6
Cash basis:					
Initial rent (1)	$ 65.33	$ 120.47	$ 41.97	$ 18.46	$ 46.67
Prior escalated rent	$ 56.91	$ 83.46	$ 43.30	$ 17.91	$ 44.34
Percentage increase (decrease)	14.8%	44.3%	(3.1%)	3.1%	5.3%
GAAP basis:					
Straight-line rent (2)	$ 63.23	$ 130.67	$ 39.83	$ 18.94	$ 50.18
Prior straight-line rent	$ 53.49	$ 122.17	$ 38.33	$ 17.32	$ 43.74
Percentage increase	18.2%	7.0%	3.9%	9.4%	14.7%
Tenant improvements and leasing commissions:					
Per square foot	$ 67.53	$ -	$ 45.48	$ 2.77	$ 12.48
Per square foot per annum	$ 6.31	$ -	$ 5.23	$ 0.45	$ 2.19
	10.1%	-	12.3%	2.5%	6.6%

Percentage of initial rent

(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) Excludes (i) 165 square feet leased to WeWork for a 20-year term at an initial rent of $24.77 per square foot, that will be redeveloped into rental residential apartments (see page 53), and (ii) 8 square feet of retail space that was leased at an initial rent of $40.74 per square foot.

Overview – continued

Square footage (in service) and Occupancy as of March 31, 2014:

		Square Feet (in service)		
(Square feet in thousands)	**Number of Properties**	**Total Portfolio**	**Our Share**	**Occupancy %**
New York:				
Office	32	19,841	16,396	96.9%
Retail	55	2,379	2,164	97.1%
Alexander's	6	2,178	706	99.4%
Hotel Pennsylvania	1	1,400	1,400	
Residential - 1,655 units	4	1,523	762	96.2%
		27,321	21,428	97.0%
Washington, DC:				
Office, excluding the Skyline Properties	51	13,406	11,035	85.7%
Skyline Properties	8	2,652	2,652	58.7%
Total Office	59	16,058	13,687	80.5%
Residential - 2,414 units	7	2,597	2,454	96.8%
Other	5	379	379	100.0%
		19,034	16,520	83.3%
Retail Properties:				
Strip Shopping Centers	104	14,519	14,140	93.9%
Regional Malls	5	4,134	2,646	95.7%
		18,653	16,786	94.2%
Other:				
Merchandise Mart	1	3,578	3,569	95.6%
555 California Street	3	1,795	1,257	96.1%
Primarily Warehouses	5	971	971	45.6%
		6,344	5,797	
Total square feet at March 31, 2014		71,352	60,531	

Overview - continued

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

(Square feet in thousands)	Number of properties	Square Feet (in service) Total Portfolio	Our Share	Occupancy %
New York:				
Office	31	19,799	16,358	96.6%
Retail	55	2,389	2,166	97.4%
Alexander's	6	2,178	706	99.4%
Hotel Pennsylvania	1	1,400	1,400	
Residential - 1,655 units	4	1,523	762	94.8%
		27,289	21,392	96.8%
Washington, DC:				
Office, excluding the Skyline Properties	51	13,581	11,151	85.4%
Skyline Properties	8	2,652	2,652	60.8%
Total Office	59	16,233	13,803	80.7%
Residential - 2,405 units	7	2,588	2,446	96.3%
Other	5	379	379	100.0%
		19,200	16,628	83.4%
Retail Properties:				
Strip Shopping Centers	105	14,616	14,237	94.3%
Regional Malls	5	4,135	2,646	95.9%
		18,751	16,883	94.6%
Other:				
Merchandise Mart	2	3,703	3,694	96.3%
555 California Street	3	1,795	1,257	94.5%
Primarily Warehouses	5	971	971	45.6%
		6,469	5,922	
Total square feet at December 31, 2013		71,709	60,825	

Overview - continued

Washington, DC Segment

We estimate that 2014 EBITDA from continuing operations will be between $10,000,000 and $15,000,000 lower than 2013 EBITDA, due to the effects of Base Realignment and Closure ("BRAC") related move-outs and the sluggish leasing environment in the Washington, DC / Northern Virginia area. EBITDA from continuing operations for the three months ended March 31, 2014, was lower than the prior year's three months by approximately $2,157,000, which was offset by an interest expense reduction of $5,462,000 from the restructuring of the Skyline properties mortgage loan in October 2013. As a result of this and other items, the overall earnings in the three months ended March 31, 2014 were higher than the prior year's three months.

Of the 2,395,000 square feet subject to the effects of the BRAC statute, 393,000 square feet has been taken out of service for redevelopment and 769,000 square feet has been leased or is pending. The table below summarizes the status of the BRAC space as of March 31, 2014.

	Rent Per	Square Feet			
	Square Foot	Total	Crystal City	Skyline	Rosslyn
Resolved:					
Relet as of March 31, 2014	$ 37.92	745,000	411,000	268,000	66,000
Leases pending	45.12	24,000	24,000	-	-
Taken out of service for redevelopment		393,000	393,000	-	-
		1,162,000	828,000	268,000	66,000
To Be Resolved:					
Vacated as of March 31, 2014	37.54	916,000	500,000	336,000	80,000
Expiring in:					
2014	28.75	224,000	23,000	201,000	-
2015	43.48	93,000	88,000	5,000	-
		1,233,000	611,000	542,000	80,000
Total square feet subject to BRAC		2,395,000	1,439,000	810,000	146,000

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Net Income and EBITDA by Segment for the Three Months Ended March 31, 2014 and 2013

Below is a summary of net income and a reconciliation of net income to EBITDA[1] by segment for the three months ended March 31, 2014 and 2013.

(Amounts in thousands)	For the Three Months Ended March 31, 2014					
	Total	New York	Washington, DC	Retail Properties	Toys	Other
Total revenues	$ 660,618	$ 371,282	$ 135,278	$ 88,805	$ -	$ 65,253
Total expenses	494,984	241,999	89,572	82,231	-	81,182
Operating income (loss)	165,634	129,283	45,706	6,574	-	(15,929)
Income (loss) from partially owned entities, including Toys	1,979	1,566	(1,266)	538	1,847	(706)
Income from Real Estate Fund	18,148	-	-	-	-	18,148
Interest and other investment income, net	11,893	1,475	36	9	-	10,373
Interest and debt expense	(109,442)	(42,839)	(19,347)	(9,217)	-	(38,039)
Net gain on disposition of wholly owned and partially owned assets	9,635	-	-	-	-	9,635
Income (loss) before income taxes	97,847	89,485	25,129	(2,096)	1,847	(16,518)
Income tax (expense) benefit	(1,582)	(969)	199	(731)	-	(81)
Income (loss) from continuing operations	96,265	88,516	25,328	(2,827)	1,847	(16,599)
Income from discontinued operations	1,891	-	-	1,714	-	177
Net income (loss)	98,156	88,516	25,328	(1,113)	1,847	(16,422)
Less net income attributable to noncontrolling interests	(15,439)	(1,405)	-	(17)	-	(14,017)
Net income (loss) attributable to Vornado	82,717	87,111	25,328	(1,130)	1,847	(30,439)
	170,952	58,068	22,798	10,351	38,549	41,186

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

Interest and debt expense(2)						
Depreciation and amortization(2)	196,339	87,587	36,150	25,328	26,924	20,350
Income tax expense (benefit)(2)	19,831	1,032	(189)	731	18,077	180
EBITDA(1)	$ 469,839	$ 233,798 (3)	$ 84,087 (4)	$ 35,280 (5)	$ 85,397	$ 31,277 (6)

(Amounts in thousands)	For the Three Months Ended March 31, 2013					
				Retail		
	Total	New York	Washington, DC	Properties	Toys	Other
Total revenues	$ 718,713	$ 364,801	$ 134,731	$ 142,212	$ -	$ 76,969
Total expenses	468,419	242,927	85,197	48,580	-	91,715
Operating income (loss)	250,294	121,874	49,534	93,632	-	(14,746)
Income (loss) from partially owned entities, including Toys	22,525	5,605	(2,093)	901	1,759	16,353
Income from Real Estate Fund	16,564	-	-	-	-	16,564
Interest and other investment (loss) income, net	(49,075)	1,165	76	51	-	(50,367)
Interest and debt expense	(120,346)	(40,431)	(28,250)	(10,286)	-	(41,379)
Net loss on disposition of wholly owned and partially owned assets	(36,724)	-	-	-	-	(36,724)
Income (loss) before income taxes	83,238	88,213	19,267	84,298	1,759	(110,299)
Income tax expense	(1,073)	(272)	(378)	-	-	(423)
Income (loss) from continuing operations	82,165	87,941	18,889	84,298	1,759	(110,722)
Income (loss) from discontinued operations	206,762	2,728	-	205,382	-	(1,348)
Net income (loss)	288,927	90,669	18,889	289,680	1,759	(112,070)
Less net income attributable to noncontrolling interests	(26,005)	(1,581)	-	(96)	-	(24,328)
Net income (loss) attributable to Vornado	262,922	89,088	18,889	289,584	1,759	(136,398)
Interest and debt expense(2)	188,780	49,689				