VORNADO REALTY TRUST
Form 10-Q
May 02, 2016

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, 2016**

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, 2016, 188,771,002 of the registrant’s common shares of beneficial interest are outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

VORNADO REALTY TRUST
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(Amounts in thousands, except share and per share amounts)	March 31, 2016	December 31, 2015
ASSETS		
Real estate, at cost:		
Land	$ 4,164,796	$ 4,164,799
Buildings and improvements	12,358,371	12,582,671
Development costs and construction in progress	1,305,849	1,226,637
Leasehold improvements and equipment	109,536	116,030
Total	17,938,552	18,090,137
Less accumulated depreciation and amortization	(3,352,986)	(3,418,267)
Real estate, net	14,585,566	14,671,870
Cash and cash equivalents	1,673,566	1,835,707
Restricted cash	109,147	107,799
Marketable securities	162,091	150,997
Tenant and other receivables, net of allowance for doubtful accounts of $11,200 and $11,908	97,345	98,062
Investments in partially owned entities	1,553,250	1,550,422
Real estate fund investments	566,696	574,761
Receivable arising from the straight-lining of rents, net of allowance of $2,539 and $2,751	973,709	931,245
Deferred leasing costs, net of accumulated amortization of $218,709 and $218,239	485,283	480,421
Identified intangible assets, net of accumulated amortization of $188,094 and $187,360	218,388	227,901
Assets related to discontinued operations	36,514	37,020
Other assets	411,819	477,088
	$ 20,873,374	$ 21,143,293
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Mortgages payable, net	$ 9,844,242	$ 9,513,713
Senior unsecured notes, net	844,514	844,159
Unsecured revolving credit facilities	-	550,000
Unsecured term loan, net	371,076	183,138
Accounts payable and accrued expenses	447,700	443,955
Deferred revenue	325,013	346,119
Deferred compensation plan	116,824	117,475
Liabilities related to discontinued operations	12,902	12,470
Other liabilities	433,863	426,965
Total liabilities	12,396,134	12,437,994
Commitments and contingencies		

Redeemable noncontrolling interests:		
Class A units - 12,414,019 and 12,242,820 units outstanding	1,172,256	1,223,793
Series D cumulative redeemable preferred units - 177,101 units outstanding	5,428	5,428
Total redeemable noncontrolling interests	1,177,684	1,229,221
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,676,629 shares	1,276,954	1,276,954
Common shares of beneficial interest: $.04 par value per share; authorized 250,000,000 shares; issued and outstanding 188,771,002 and 188,576,853 shares	7,529	7,521
Additional capital	7,187,036	7,132,979
Earnings less than distributions	(1,999,994)	(1,766,780)
Accumulated other comprehensive income	53,399	46,921
Total Vornado shareholders' equity	6,524,924	6,697,595
Noncontrolling interests in consolidated subsidiaries	774,632	778,483
Total equity	7,299,556	7,476,078
	$ 20,873,374	$ 21,143,293

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(Amounts in thousands, except per share amounts)	For the Three Months Ended March 31, 2016	2015
REVENUES:		
Property rentals	$ 519,492	$ 500,274
Tenant expense reimbursements	59,575	66,921
Fee and other income	33,970	39,607
Total revenues	613,037	606,802
EXPENSES:		
Operating	256,349	254,493
Depreciation and amortization	142,957	124,122
General and administrative	48,704	58,492
Impairment loss and acquisition and transaction related costs	165,307	1,981
Total expenses	613,317	439,088
Operating (loss) income	(280)	167,714
Loss from partially owned entities	(4,240)	(2,743)
Income from real estate fund investments	11,284	24,089
Interest and other investment income, net	3,518	10,792
Interest and debt expense	(100,489)	(91,674)
Net gain on disposition of wholly owned and partially owned assets	714	1,860
(Loss) income before income taxes	(89,493)	110,038
Income tax expense	(2,831)	(971)
(Loss) income from continuing operations	(92,324)	109,067
Income from discontinued operations	716	16,179
Net (loss) income	(91,608)	125,246
Less net (income) loss attributable to noncontrolling interests in:		
Consolidated subsidiaries	(9,678)	(15,882)
Operating Partnership	7,487	(5,287)
Net (loss) income attributable to Vornado	(93,799)	104,077
Preferred share dividends	(20,364)	(19,484)
NET (LOSS) INCOME attributable to common shareholders	$ (114,163)	$ 84,593
(LOSS) INCOME PER COMMON SHARE - BASIC:		
(Loss) income from continuing operations, net	$ (0.61)	$ 0.37
Income from discontinued operations, net	-	0.08
Net (loss) income per common share	$ (0.61)	$ 0.45
Weighted average shares outstanding	188,658	187,999
(LOSS) INCOME PER COMMON SHARE - DILUTED:		
(Loss) income from continuing operations, net	$ (0.61)	$ 0.37
Income from discontinued operations, net	-	0.08
Net (loss) income per common share	$ (0.61)	$ 0.45

Weighted average shares outstanding	188,658	189,336
DIVIDENDS PER COMMON SHARE	$ 0.63	$ 0.63

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended March 31, 2016	2015
Net (loss) income	$ (91,608)	$ 125,246
Other comprehensive income (loss):		
Increase (reduction) in unrealized net gain on available-for-sale securities	11,094	(21,332)
Pro rata share of other comprehensive income of nonconsolidated subsidiaries	6	157
Reduction in value of interest rate swaps and other	(4,195)	(771)
Comprehensive (loss) income	(84,703)	103,300
Less comprehensive income attributable to noncontrolling interests	(2,618)	(19,881)
Comprehensive (loss) income attributable to Vornado	$ (87,321)	$ 83,419

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Preferred Shares		Common Shares		Additional	Earnings Less Than	Accumulated Other Comprehensive	Non-controlling Interests in Consolidated	Total
	Shares	Amount	Shares	Amount	Capital	Distributions	Income	Subsidiaries	Equity
Balance, December 31, 2015	52,677	$ 1,276,954	188,577	$ 7,521	$ 7,132,979	$ (1,766,780)	$ 46,921	$ 778,483	$ 7,476,078
Net loss attributable to Vornado	-	-	-	-	-	(93,799)	-	-	(93,799)
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	9,678	9,678
Dividends on common shares	-	-	-	-	-	(118,867)	-	-	(118,867)
Dividends on preferred shares	-	-	-	-	-	(20,364)	-	-	(20,364)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	157	6	14,476	-	-	-	14,482
Under employees' share option plan	-	-	26	1	2,165	-	-	-	2,166
Under dividend reinvestment plan	-	-	4	-	357	-	-	-	357
Distributions:									
Real estate fund	-	-	-	-	-	-	-	(13,487)	(13,487)

investments									
Other	-	-	-	-	-	-	-	(152)	(152)
Deferred compensation shares and options	-	-	7	1	535	(186)	-	-	350
Increase in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	11,094	-	11,094
Pro rata share of other comprehensive income of nonconsolidated subsidiaries	-	-	-	-	-	-	6	-	6
Reduction in value of interest rate swaps	-	-	-	-	-	-	(4,195)	-	(4,195)
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	36,524	-	-	-	36,524
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	(427)	-	(427)
Other	-	-	-	-	-	2	-	110	112
Balance, March 31, 2016	52,677	$ 1,276,954	188,771	$ 7,529	$ 7,187,036	$ (1,999,994)	$ 53,399	$ 774,632	$ 7,299,556

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Preferred Shares Shares	Preferred Shares Amount	Common Shares Shares	Common Shares Amount	Additional Capital	Earnings Less Than Distributions	Accumulated Other Comprehensive Income	Non-controlling Interests in Consolidated Subsidiaries	Total Equity
Balance, December 31, 2014	52,679	$ 1,277,026	187,887	$ 7,493	$ 6,873,025	$ (1,505,385)	$ 93,267	$ 743,956	$ 7,489,382
Net income attributable to Vornado	-	-	-	-	-	104,077	-	-	104,077
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	15,882	15,882
Distribution of Urban Edge Properties	-	-	-	-	-	(464,262)	-	(341)	(464,603)
Dividends on common shares	-	-	-	-	-	(118,447)	-	-	(118,447)
Dividends on preferred shares	-	-	-	-	-	(19,484)	-	-	(19,484)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	210	8	23,485	-	-	-	23,493
Under employees' share option plan	-	-	165	7	11,672	(2,579)	-	-	9,100
Under dividend reinvestment	-	-	3	-	338	-	-	-	338

plan									
Contributions:									
Real estate fund investments	-	-	-	-	-	-	-	51,350	51,350
Distributions:									
Real estate fund investments	-	-	-	-	-	-	-	(52,882)	(52,882)
Other	-	-	-	-	-	-	-	(125)	(125)
Conversion of Series A preferred shares to common shares	-	(12)	1	-	12	-	-	-	-
Deferred compensation shares and options	-	-	7	1	1,324	(359)	-	-	966
Reduction in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	(21,332)	-	(21,332)
Pro rata share of other comprehensive income of nonconsolidated subsidiaries	-	-	-	-	-	-	157	-	157
Reduction in value of interest rate swap	-	-	-	-	-	-	(776)	-	(776)
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	25,349	-	-	-	25,349
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	1,288	-	1,288
Other	-	-	-	-	-	-	5	(90)	(85)
	52,679	$ 1,277,014	188,273	$ 7,509	$ 6,935,205	$ (2,006,439)	$ 72,609	$ 757,750	$ 7,043,648

Balance, March 31, 2015

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended March 31, 2016	2015
Cash Flows from Operating Activities:		
Net (loss) income	$ (91,608)	$ 125,246
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Real estate impairment losses	160,700	256
Depreciation and amortization (including amortization of deferred financing costs)	150,648	131,112
Straight-lining of rental income	(41,626)	(29,474)
Distributions of income from partially owned entities	29,860	15,874
Amortization of below-market leases, net	(17,507)	(12,754)
Other non-cash adjustments	15,248	15,865
Return of capital from real estate fund investments	14,676	72,208
Net realized and unrealized gains on real estate fund investments	(6,611)	(17,639)
Loss from partially owned entities	4,240	2,405
Net gain on disposition of wholly owned and partially owned assets	(714)	(1,860)
Net gains on sale of real estate and other	-	(32,243)
Changes in operating assets and liabilities:		
Real estate fund investments	-	(95,022)
Tenant and other receivables, net	800	975
Prepaid assets	64,851	62,658
Other assets	(20,113)	(13,093)
Accounts payable and accrued expenses	12,774	(12,691)
Other liabilities	1,027	(17,307)
Net cash provided by operating activities	276,645	194,516
Cash Flows from Investing Activities:		
Development costs and construction in progress	(127,283)	(88,052)
Additions to real estate	(77,243)	(54,466)
Investments in partially owned entities	(63,188)	(23,912)
Distributions of capital from partially owned entities	25,524	13,409
Proceeds from sales of real estate and related investments	2,867	334,725
Restricted cash	(1,348)	1,282
Acquisitions of real estate and other	(938)	(49,878)
Proceeds from sales and repayments of mortgage and mezzanine loans receivable and other	11	16,763
Net cash (used in) provided by investing activities	(241,598)	149,871

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	For the Three Months Ended March 31, 2016	2015
Cash Flows from Financing Activities:		
Repayments of borrowings	$ (909,617)	$ (907,431)
Proceeds from borrowings	887,500	800,000
Dividends paid on common shares	(118,867)	(118,447)
Distributions to noncontrolling interests	(21,474)	(60,287)
Dividends paid on preferred shares	(20,364)	(19,484)
Debt issuance and other costs	(16,704)	(5,076)
Proceeds received from exercise of employee share options	2,523	12,018
Repurchase of shares related to stock compensation agreements and related tax withholdings and other	(185)	(2,939)
Cash included in the spin-off of Urban Edge Properties	-	(225,000)
Contributions from noncontrolling interests	-	51,350
Net cash used in financing activities	(197,188)	(475,296)
Net decrease in cash and cash equivalents	(162,141)	(130,909)
Cash and cash equivalents at beginning of period	1,835,707	1,198,477
Cash and cash equivalents at end of period	$ 1,673,566	$ 1,067,568
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest, excluding capitalized interest of $7,497 and $8,479	$ 91,719	$ 91,702
Cash payments for income taxes	$ 2,193	$ 2,175
Non-Cash Investing and Financing Activities:		
Accrued capital expenditures included in accounts payable and accrued expenses	$ 113,755	$ 87,232
Adjustments to carry redeemable Class A units at redemption value	36,524	25,349
Write-off of fully depreciated assets	(187,419)	(18,790)
Non-cash distribution of Urban Edge Properties:		
Assets	-	1,722,263
Liabilities	-	(1,482,660)
Equity	-	(239,603)
Transfer of interest in real estate to Pennsylvania Real Estate Investment Trust	-	(145,313)
Financing assumed in acquisitions	-	62,000
Like-kind exchange of real estate:		
Acquisitions	-	57,722
Dispositions	-	(38,822)
Receipt of security deposits included in restricted cash and other liabilities	-	42,346

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization

Vornado Realty Trust ("Vornado") is a fully integrated real estate investment trust ("REIT") and conducts its business through, and 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 93.6% of the common limited partnership interest in, the Operating Partnership at March 31, 2016. All references to "we," "us," "our," the "Company" and "Vornado" refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

2. Basis of Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado and its consolidated subsidiaries, including the Operating Partnership. All inter-company amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission ("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, 2015, 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, 2016 are not necessarily indicative of the operating results for the full year.

3. Recently Issued Accounting Literature

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an update ("ASU 2014-09") establishing Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers*. ASU 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. ASU 2014-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

3. Recently Issued Accounting Literature - continued

In June 2014, the FASB issued an update ("ASU 2014-12") to ASC Topic 718, *Compensation – Stock Compensation*. ASU 2014-12 requires an entity to treat performance targets that can be met after the requisite service period of a share based award has ended, as a performance condition that affects vesting. ASU 2014-12 is effective for interim and annual reporting periods in fiscal years that began after December 15, 2015. The adoption of this update as of January 1, 2016, did not have any impact on our consolidated financial statements.

In February 2015, the FASB issued an update ("ASU 2015-02") *Amendments to the Consolidation Analysis* to ASC Topic 810, *Consolidation*. ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, and (iv) provide a scope exception for certain entities. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of this update on January 1, 2016 resulted in the identification of additional VIEs, but did not have an impact on our consolidated financial statements other than additional disclosures (see Note 12 - *Variable Interest Entities ("VIEs")*).

In January 2016, the FASB issued an update ("ASU 2016-01") *Recognition and Measurement of Financial Assets and Financial Liabilities* to ASC Topic 825, *Financial Instruments* ("ASC 825"). ASU 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including the requirement to measure certain equity investments at fair value with changes in fair value recognized in net income. ASU 2016-01 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2016-01 on our consolidated financial statements.

In February 2016, the FASB issued ("ASU 2016-02") *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase. Lessees are required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. Lessees will recognize expense based on the effective interest method for finance leases or on a straight-line basis for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In March 2016, the FASB issued an update ("ASU 2016-09") *Improvements to Employee Share-Based Payment Accounting* to ASC Topic 718, *Compensation—Stock Compensation* ("ASC 718"). ASU 2016-09 amends several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2016-09 on our consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

4. Real Estate Fund Investments

We are the general partner and investment manager of Vornado Capital Partners Real Estate Fund (the "Fund"), which has an eight-year term and a three-year investment period that ended in July 2013. During the investment period, the Fund was our exclusive investment vehicle for all investments that fit within its investment parameters, as defined. The Fund is accounted for under ASC 946, *Financial Services – Investment Companies* ("ASC 946") 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.

We are also the general partner and investment manager of Crowne Plaza Times Square Hotel Co-Investment (the "Co-Investment"), which owns a 24.7% interest in the Crowne Plaza Times Square Hotel. The Fund owns the remaining 75.3% interest. The Co-Investment is also accounted for under ASC 946. We consolidate the accounts of the Co-Investment into our consolidated financial statements, retaining the fair value basis of accounting.

At March 31, 2016, we had six real estate fund investments with an aggregate fair value of $566,696,000, or $200,549,000 in excess of cost, and had remaining unfunded commitments of $102,212,000, of which our share was $25,553,000. Below is a summary of income from the Fund and the Co-Investment for the three months ended March 31, 2016 and 2015.

(Amounts in thousands)	**For the Three Months Ended March 31,**	
	2016	**2015**
Net investment income	$ 4,673	$ 6,450
Net realized gain on exited investments	14,676	24,705
Previously recorded unrealized gain on exited investment	(14,254)	(23,279)
Net unrealized gains on held investments	6,189	16,213
Income from real estate fund investments	11,284	24,089
Less income attributable to noncontrolling interests	(5,973)	(13,539)
Income from real estate fund investments attributable to Vornado [(1)]	$ 5,311	$ 10,550

(1) Excludes management, leasing and development fees of $760 and $704 for the three months ended March 31, 2016 and 2015, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

5. Marketable Securities

Below is a summary of our marketable securities portfolio as of March 31, 2016 and December 31, 2015.

(Amounts in thousands)	**As of March 31, 2016**			**As of December 31, 2015**		
	Fair Value	**GAAP Cost**	**Unrealized Gain**	**Fair Value**	**GAAP Cost**	**Unrealized Gain**
Equity securities:						
Lexington Realty Trust	$ 158,833	$ 72,549	$ 86,284	$ 147,752	$ 72,549	$ 75,203
Other	3,258	-	3,258	3,245	-	3,245
	$ 162,091	$ 72,549	$ 89,542	$ 150,997	$ 72,549	$ 78,448

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

6. Investments in Partially Owned Entities

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

As of March 31, 2016, we own 1,654,068 Alexander's common shares, representing a 32.4% interest in Alexander's. We account for our investment in Alexander's under the equity method. 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, 2016, the market value ("fair value" pursuant to ASC 820) of our investment in Alexander's, based on Alexander's March 31, 2016 closing share price of $380.55, was $629,456,000, or $501,192,000 in excess of the carrying amount on our consolidated balance sheet. As of March 31, 2016, 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 $40,162,000. 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.

Urban Edge Properties ("UE") (NYSE: UE)

As of March 31, 2016, we own 5,717,184 UE operating partnership units, representing a 5.4% ownership interest in UE. We account for our investment in UE under the equity method and record our share of UE's net income or loss on a one-quarter lag basis. During 2015, we provided transition services to UE, primarily for information technology, human resources, tax and financial planning. In 2016, we continue to provide UE information technology support. UE is providing us with leasing and property management services for (i) certain small retail properties that we plan to sell, and (ii) our affiliate, Alexander's, Rego Park retail assets. As of March 31, 2016, the fair value of our investment in UE, based on UE's March 31, 2016 closing share price of $25.84, was $147,732,000, or $121,505,000 in excess of the carrying amount on our consolidated balance sheet.

Pennsylvania Real Estate Investment Trust ("PREIT") (NYSE: PEI)

As of March 31, 2016, we own 6,250,000 PREIT operating partnership units, representing an 8.1% interest in PREIT. We account for our investment in PREIT under the equity method and record our share of PREIT's net income or loss on a one-quarter lag basis. As of March 31, 2016, the fair value of our investment in PREIT, based on PREIT's March 31, 2016 closing share price of $21.85, was $136,563,000, or $8,495,000 in excess of the carrying amount on our consolidated balance sheet. As of March 31, 2016, the carrying amount of our investment in PREIT exceeds our share of the equity in the net assets of PREIT by approximately $64,827,000. The majority of this basis difference resulted from the excess of the fair value of the PREIT operating units received over our share of the book value of PREIT's net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of PREIT'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 PREIT's net loss. The basis difference related to the land will be recognized upon disposition of our investment.

One Park Avenue

On March 7, 2016, we completed a $300,000,000 refinancing of our 55% owned joint venture, One Park Avenue, a 947,000 square foot Manhattan office building. The loan matures in March 2021 and is interest only at LIBOR plus 1.75% (2.19% at March 31, 2016). The property was previously encumbered by a 4.995%, $250,000,000 mortgage maturing in March 2016.

Mezzanine Loan – New York

On March 17, 2016, we entered into a joint venture, in which we own a 33.3% interest, which owns a $138,240,000 mezzanine loan. The interest rate is LIBOR plus 8.875% (9.32% at March 31, 2016) and the debt matures in November 2016, with two three-month extension options. At March 31, 2016, the joint venture has an $11,760,000 remaining commitment, of which our share is $3,920,000. The joint venture's investment is subordinate to $350,000,000 of third party debt. We account for our investment in the joint venture under the equity method.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

6. Investments in Partially Owned Entities – continued

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

(Amounts in thousands)	Percentage Ownership at March 31, 2016	Balance as of March 31, 2016	Balance as of December 31, 2015
Investments:			
Partially owned office buildings (1)	Various	$ 869,233	$ 909,782
Alexander’s	32.4%	128,264	133,568
PREIT	8.1%	128,068	133,375
India real estate ventures	4.1%-36.5%	48,037	48,310
UE	5.4%	26,227	25,351
Other investments (2)	Various	353,421	300,036
		$ 1,553,250	$ 1,550,422

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue, 512 West 22nd Street and others.

(2) Includes interests in Independence Plaza, 85 Tenth Avenue, Fashion Center Mall, 50-70 West 93rd Street, Toys "R" Us, Inc. (which has a carrying amount of zero) and others.

(Amounts in thousands)	Percentage Ownership at March 31, 2016	For the Three Months Ended March 31, 2016	2015
Our Share of Net Income (Loss):			
Alexander's (see page 13 for details):			
Equity in net income	32.4%	$ 6,937	$ 5,594
Management, leasing and development fees		1,725	2,097
		8,662	7,691
UE (see page 13 for details):			
Equity in net earnings	5.4%	876	-
Management fees		209	584

		1,085	584
Partially owned office buildings (1)	Various	(14,249)	(9,296)
PREIT (see page 13 for details)	8.1%	(4,288)	-
India real estate ventures	4.1%-36.5%	(686)	(109)
Other investments (2)	Various	5,236	(1,613)
		$ (4,240)	$ (2,743)

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 330 Madison Avenue, 512 West 22nd Street and others.

(2) Includes interests in Independence Plaza, 85 Tenth Avenue, Fashion Center Mall, 50-70 West 93rd Street, Toys "R" Us, Inc. and others.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

7. Dispositions

The tables below set forth the assets and liabilities related to discontinued operations at March 31, 2016 and December 31, 2015 and their combined results of operations and cash flows for the three months ended March 31, 2016 and 2015.

(Amounts in thousands)	Balance as of	
	March 31, 2016	**December 31, 2015**
Assets related to discontinued operations:		
Real estate, net	$ 29,517	$ 29,561
Other assets	6,997	7,459
	$ 36,514	$ 37,020
Liabilities related to discontinued operations:		
Other liabilities	$ 12,902	$ 12,470
	$ 12,902	$ 12,470

(Amounts in thousands)	For the Three Months Ended March 31,	
	2016	**2015**
Income from discontinued operations:		
Total revenues	$ 1,182	$ 20,296
Total expenses	466	13,373
	716	6,923
Transaction related costs (primarily UE spin off)	-	(22,645)
Net gain on sale of lease position in Geary Street, CA	-	21,376
Net gains on sale of real estate	-	10,867
Impairment losses	-	(256)
Pretax income from discontinued operations	716	16,265
Income tax expense	-	(86)
Income from discontinued operations	$ 716	$ 16,179

Cash flows related to discontinued operations:				
Cash flows from operating activities	$	1,654	$	(36,672)
Cash flows from investing activities		-		310,069

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

8. Identified Intangible Assets and Liabilities

The following summarizes our identified intangible assets (primarily above-market leases) and liabilities (primarily acquired below-market leases) as of March 31, 2016 and December 31, 2015.

(Amounts in thousands)	Balance as of			
	March 31, 2016		December 31, 2015	
Identified intangible assets:				
Gross amount	$	406,482	$	415,261
Accumulated amortization		(188,094)		(187,360)
Net	$	218,388	$	227,901
Identified intangible liabilities (included in deferred revenue):				
Gross amount	$	607,241	$	643,488
Accumulated amortization		(307,858)		(325,340)
Net	$	299,383	$	318,148

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of $17,507,000 and $12,450,000 for the three months ended March 31, 2016 and 2015, 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, 2017 is as follows:

(Amounts in thousands)		
2017	$	44,463
2018		42,991
2019		30,973
2020		23,320
2021		18,263

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was $7,793,000 and $6,185,000 for the three months ended March 31, 2016 and 2015, 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, 2017 is as follows:

(Amounts in thousands)		
2017	$	24,427
2018		20,063
2019		15,779
2020		12,345
2021		10,957

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 $458,000 and $458,000 for the three months ended March 31, 2016 and 2015, respectively. Estimated annual amortization of these below-market leases, net of above-market leases, for each of the five succeeding years commencing January 1, 2017 is as follows:

(Amounts in thousands)		
2017	$	1,832
2018		1,832
2019		1,832
2020		1,832
2021		1,832

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

9. Debt

On February 8, 2016, we completed a $700,000,000 refinancing of 770 Broadway, a 1,158,000 square foot Manhattan office building. The five-year loan is interest only at LIBOR plus 1.75%, (2.19% at March 31, 2016) which was swapped for four and a half years to a fixed rate of 2.56%. The Company realized net proceeds of approximately $330,000,000. The property was previously encumbered by a 5.65%, $353,000,000 mortgage which was to mature in March 2016.

On March 15, 2016, we notified the servicer of the $678,000,000 mortgage loan on the Skyline properties in Virginia that cash flow will be insufficient to service the debt and pay other property related costs and expenses and that we were not willing to fund additional cash shortfalls. Accordingly, at our request, the loan has been transferred to the special servicer. Consequently, based on our shortened estimated holding period for the underlying assets, we concluded that the excess of carrying amount over our estimate of fair value was not recoverable and recognized a $160,700,000 non-cash impairment loss in the first quarter of 2016.

The following is a summary of our debt:

(Amounts in thousands)	Interest Rate at March 31, 2016	Balance at March 31, 2016	Balance at December 31, 2015
Mortgages Payable:			
Fixed rate	4.04%	$ 6,695,401	$ 6,356,634
Variable rate	2.25%	3,259,067	3,258,204
Total	3.46%	9,954,468	9,614,838
Deferred financing costs, net and other		(110,226)	(101,125)
Total, net		$ 9,844,242	$ 9,513,713
Unsecured Debt:			
Senior unsecured notes	3.68%	$ 850,000	$ 850,000
Deferred financing costs, net and other		(5,486)	(5,841)
Senior unsecured notes, net		844,514	844,159

Unsecured term loan	1.58%		375,000		187,500
Deferred financing costs, net and other			(3,924)		(4,362)
Unsecured term loan, net			371,076		183,138
Unsecured revolving credit facilities	-		-		550,000
Total, net		$	1,215,590	$	1,577,297

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

10. Redeemable Noncontrolling Interests

Redeemable noncontrolling interests on our consolidated balance sheets are comprised primarily of Class A Operating Partnership units 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, 2014	$ 1,337,780
Net income	5,287
Other comprehensive loss	(1,288)
Distributions	(7,280)
Redemption of Class A units for common shares, at redemption value	(23,493)
Adjustments to carry redeemable Class A units at redemption value	(25,349)
Other, net	19,133
Balance at March 31, 2015	$ 1,304,790
Balance at December 31, 2015	$ 1,229,221
Net loss	(7,487)
Other comprehensive income	427
Distributions	(7,835)
Redemption of Class A units for common shares, at redemption value	(14,482)
Adjustments to carry redeemable Class A units at redemption value	(36,524)
Other, net	14,364
Balance at March 31, 2016	$ 1,177,684

As of March 31, 2016 and December 31, 2015, the aggregate redemption value of redeemable Class A units was $1,172,256,000 and $1,223,793,000, 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 $50,561,000 as of March 31, 2016 and December 31, 2015. Changes in the value from period to period, if any, are charged to "interest and debt expense" on our consolidated statements of income.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

11. Accumulated Other Comprehensive Income ("AOCI")

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

(Amounts in thousands)	Total	Securities available-for-sale	Pro rata share of nonconsolidated subsidiaries' OCI	Interest rate swaps	Other
For the Three Months Ended March 31, 2016					
Balance as of December 31, 2015	$ 46,921	$ 78,448	$ (9,319)	$ (19,368)	$ (2,840)
OCI before reclassifications	6,478	11,094	6	(4,195)	(427)
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	6,478	11,094	6	(4,195)	(427)
Balance as of March 31, 2016	$ 53,399	$ 89,542	$ (9,313)	$ (23,563)	$ (3,267)
For the Three Months Ended March 31, 2015					
Balance as of December 31, 2014	$ 93,267	$ 133,774	$ (8,992)	$ (25,803)	$ (5,712)
OCI before reclassifications	(20,658)	(21,332)	157	(776)	1,293
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	(20,658)	(21,332)	157	(776)	1,293
Balance as of March 31, 2015	$ 72,609	$ 112,442	$ (8,835)	$ (26,579)	$ (4,419)

12. Variable Interest Entities ("VIEs")

At March 31, 2016 and December 31, 2015, we have several unconsolidated VIEs. 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 (see Note 6 – *Investments in Partially Owned Entities*). As of March 31, 2016 and December 31, 2015, the net carrying amounts of our investment in these entities were $361,921,000 and $379,939,000, respectively, and our maximum exposure to loss in these entities, is limited to our investments.

We adopted ASU 2015-02 on January 1, 2016 which resulted in the identification of several VIEs at March 31, 2016. Prior to the adoption of ASU 2015-02, these entities were consolidated under the voting interest model. Our most significant consolidated VIEs are our Operating Partnership, real estate fund investments, and certain properties that have non-controlling interests. These entities are VIEs because the non-controlling interests do not have substantive kick-out or participating rights. We consolidate these entities because we control all significant business activities.

We conduct our business through, and all of our assets and liabilities are held by, our Operating Partnership which is a VIE.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

13. Fair Value Measurements

ASC 820 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) mandatorily redeemable instruments (Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units), and (v) interest rate swaps. The tables below aggregate the fair values of these financial assets and liabilities by their levels in the fair value hierarchy as of March 31, 2016 and December 31, 2015, respectively.

(Amounts in thousands)	As of March 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Marketable securities	$ 162,091	$ 162,091	$ -	$ -
Real estate fund investments (75% of which is attributable to noncontrolling interests)	566,696	-	-	566,696
	116,824	59,640	-	57,184

Deferred compensation plan assets (included in other assets)				
Interest rate swap (included in other assets)	5,039	-	5,039	-
Total assets	$ 850,650	$ 221,731	$ 5,039	$ 623,880
Mandatorily redeemable instruments (included in other liabilities)	$ 50,561	$ 50,561	$ -	$ -
Interest rate swaps (included in other liabilities)	28,914	-	28,914	-
Total liabilities	$ 79,475	$ 50,561	$ 28,914	$ -

(Amounts in thousands)		**As of December 31, 2015**		
	Total	**Level 1**	**Level 2**	**Level 3**
Marketable securities	$ 150,997	$ 150,997	$ -	$ -
Real estate fund investments (75% of which is attributable to noncontrolling interests)	574,761	-	-	574,761
Deferred compensation plan assets (included in other assets)	117,475	58,289	-	59,186
Total assets	$ 843,233	$ 209,286	$ -	$ 633,947
Mandatorily redeemable instruments (included in other liabilities)	$ 50,561	$ 50,561	$ -	$ -
Interest rate swaps (included in other liabilities)	19,600	-	19,600	-
Total liabilities	$ 70,161	$ 50,561	$ 19,600	$ -

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

13. Fair Value Measurements – continued

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

Real Estate Fund Investments

At March 31, 2016, we had six real estate fund investments with an aggregate fair value of $566,696,000, or $200,549,000 in excess of cost. These investments are classified as Level 3. We use a discounted cash flow valuation technique to estimate the fair value of each of these investments, which is updated quarterly by personnel responsible for the management of each investment and reviewed by senior management at each reporting period. The discounted cash flow valuation technique requires us to estimate cash flows for each investment over the anticipated holding period, which currently ranges from 1.3 to 4.8 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, 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 real estate fund investments at March 31, 2016 and December 31, 2015.

	Weighted Average

Unobservable Quantitative Input	Range		Weighted Average (based on fair value of investments)	
	March 31, 2016	December 31, 2015	March 31, 2016	December 31, 2015
Discount rates	12.0% to 14.9%	12.0% to 14.9%	13.5%	13.6%
Terminal capitalization rates	4.8% to 6.1%	4.8% to 6.1%	5.4%	5.5%

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 real estate fund investments that are classified as Level 3, for the three months ended March 31, 2016 and 2015.

(Amounts in thousands)	For the Three Months Ended March 31, 2016	2015
Beginning balance	$ 574,761	$ 513,973
Purchases	-	95,000
Dispositions / distributions	(14,676)	(72,186)
Net unrealized gains	6,189	16,213
Net realized gains	422	1,426
Ending balance	$ 566,696	$ 554,426

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

13. 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, 2016 and 2015.

(Amounts in thousands)	For the Three Months Ended March 31,	
	2016	**2015**
Beginning balance	$ 59,186	$ 63,315
Purchases	1,166	624
Sales	(1,372)	(438)
Realized and unrealized (loss) gain	(1,907)	1,335
Other, net	111	-
Ending balance	$ 57,184	$ 64,836

Fair Value Measurements on a Nonrecurring Basis

Assets measured at fair value on a nonrecurring basis on our consolidated balance sheets consist primarily of real estate assets required to be measured for impairment at March 31, 2016. There are no assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2015. The fair values of real estate assets required to be measured for impairment 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.

(Amounts in thousands)	As of March 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Real estate assets (Skyline properties)	$ 192,003	$ -	$ -	$ 192,003

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

13. 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), 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 unsecured revolving credit facilities and unsecured term loan are classified as Level 1. The fair value of our secured and unsecured debt is classified as Level 2. The table below summarizes the carrying amounts and fair value of these financial instruments as of March 31, 2016 and December 31, 2015.

(Amounts in thousands)	**As of March 31, 2016**		**As of December 31, 2015**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Cash equivalents	$ 1,445,442	$ 1,445,000	$ 1,295,980	$ 1,296,000
Debt:				
Mortgages payable	$ 9,954,468	$ 9,705,000	$ 9,614,838	$ 9,306,000
Senior unsecured notes	850,000	887,000	850,000	868,000
Unsecured term loan	375,000	375,000	187,500	187,500
Unsecured revolving credit facilities	-	-	550,000	550,000
Total	$ 11,179,468 (1)	$ 10,967,000	$ 11,202,338	$ 10,911,500

(1) Excludes $119,636 of deferred financing costs, net and other.

14. Incentive Compensation

Our 2010 Omnibus Share Plan (the “Plan”) provides for grants of incentive and non-qualified stock options, restricted shares, restricted Operating Partnership units and Out-Performance Plan awards to certain of our employees and officers. We account for all equity-based compensation in accordance with ASC 718, *Compensation – Stock Compensation*. Equity-based compensation expense was $14,571,000 and $20,142,000 for the three months ended March 31, 2016 and 2015, respectively.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

15. 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, 2016	2015
BMS cleaning fees	$ 18,146	$ 22,633
Management and leasing fees	4,799	4,192
Lease termination fees	2,405	3,747
Other income	8,620	9,035
	$ 33,970	$ 39,607

Management and leasing fees include management fees from Interstate Properties, a related party, of $134,000 and $139,000 for the three months ended March 31, 2016 and 2015, respectively. The above table excludes fee income from partially owned entities, which is included in "loss from partially owned entities" (see Note 6 – *Investments in Partially Owned Entities*).

16. Interest and Other Investment Income, Net

The following table sets forth the details of interest and other investment income, net:

(Amounts in thousands)	For the Three Months Ended March 31, 2016	2015
Dividends on marketable securities	$ 3,215	$ 3,203
Mark-to-market (loss) income of investments in our deferred compensation plan [1]	(1,938)	2,859
Interest on loans receivable	748	2,824
Other, net	1,493	1,906

	$ 3,518	$ 10,792

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

17. 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,	
	2016	**2015**
Interest expense	$ 100,295	$ 95,328
Amortization of deferred financing costs	9,265	7,456
Capitalized interest and debt expense	(9,071)	(11,110)
	$ 100,489	$ 91,674

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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18. (Loss) Income Per Share

The following table provides a reconciliation of both net (loss) income and the number of common shares used in the computation of (i) basic (loss) income per common share - which includes the weighted average number of common shares outstanding without regard to dilutive potential common shares, and (ii) diluted (loss) 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 awards.

(Amounts in thousands, except per share amounts)	For the Three Months Ended March 31, 2016	2015
Numerator:		
(Loss) income from continuing operations, net of income attributable to noncontrolling interests	$ (94,471)	$ 88,848
Income from discontinued operations, net of income attributable to noncontrolling interests	672	15,229
Net (loss) income attributable to Vornado	(93,799)	104,077
Preferred share dividends	(20,364)	(19,484)
Net (loss) income attributable to common shareholders	(114,163)	84,593
Earnings allocated to unvested participating securities	(16)	(19)
Numerator for basic and diluted (loss) income per share	$ (114,179)	$ 84,574
Denominator:		
Denominator for basic (loss) income per share – weighted average shares	188,658	187,999
Effect of dilutive securities[(1)]:		
Employee stock options and restricted share awards	-	1,337
Denominator for diluted (loss) income per share – weighted average shares and assumed conversions	188,658	189,336
(LOSS) INCOME PER COMMON SHARE – BASIC:		
(Loss) income from continuing operations, net	$ (0.61)	$ 0.37

Income from discontinued operations, net		-		0.08
Net (loss) income per common share	$	(0.61)	$	0.45
(LOSS) INCOME PER COMMON SHARE – DILUTED:				
(Loss) income from continuing operations, net	$	(0.61)	$	0.37
Income from discontinued operations, net		-		0.08
Net (loss) income per common share	$	(0.61)	$	0.45

(1) The effect of dilutive securities for the three months ended March 31, 2016 and 2015 excludes an aggregate of 13,281 and 11,488 weighted average common share equivalents, respectively, as their effect was anti-dilutive.

19. Commitments and Contingencies

Insurance

We maintain general liability insurance with limits of $300,000,000 per occurrence and per property, and all risk property and rental value insurance with limits of $2.0 billion per occurrence, with sub-limits for certain perils such as flood and earthquake. Our California properties have earthquake insurance with coverage of $180,000,000 per occurrence and in the annual aggregate, subject to a deductible in the amount of 5% of the value of the affected property. We maintain coverage for terrorism acts with limits of $4.0 billion per occurrence and in the aggregate, and $2.0 billion per occurrence and in the aggregate for terrorism involving nuclear, biological, chemical and radiological ("NBCR") terrorism events, as defined by Terrorism Risk Insurance Program Reauthorization Act of 2015, which expires in December 2020.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

19. Commitments and Contingencies - continued

Insurance - continued

Penn Plaza Insurance Company, LLC (“PPIC”), our wholly owned consolidated subsidiary, acts as a re-insurer with respect to a portion of all risk property and rental value insurance and a portion of our earthquake insurance coverage, and as a direct insurer for coverage for acts of terrorism including NBCR acts. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies and the Federal government with no exposure to PPIC. For NBCR acts, PPIC is responsible for a deductible of $2,400,000 per occurrence and 16% of the balance of a covered loss and the Federal government is responsible for the remaining 84% 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, 2016, the aggregate dollar amount of these guarantees and master leases is approximately $481,000,000.

At March 31, 2016, $32,540,000 of letters of credit were outstanding under one of our unsecured revolving credit facilities. Our unsecured 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 unsecured 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, 2016, we expect to fund additional capital to certain of our partially owned entities aggregating approximately $80,000,000.

As of March 31, 2016, we have construction commitments aggregating approximately $810,700,000.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

20. 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, 2016 and 2015.

(Amounts in thousands)	For the Three Months Ended March 31, 2016			
	Total	**New York**	**Washington, DC**	**Other**
Total revenues	$ 613,037	$ 410,825	$ 128,012	$ 74,200
Total expenses	613,317	269,595	256,565	87,157
Operating (loss) income	(280)	141,230	(128,553)	(12,957)
(Loss) income from partially owned entities	(4,240)	(3,563)	(2,043)	1,366
Income from real estate fund investments	11,284	-	-	11,284
Interest and other investment income, net	3,518	1,115	58	2,345
Interest and debt expense	(100,489)	(54,586)	(15,935)	(29,968)
Net gain on disposition of wholly owned and partially owned assets	714	-	-	714
(Loss) income before income taxes	(89,493)	84,196	(146,473)	(27,216)
Income tax expense	(2,831)	(959)	(264)	(1,608)
(Loss) income from continuing operations	(92,324)	83,237	(146,737)	(28,824)
Income from discontinued operations	716	-	-	716
Net (loss) income	(91,608)	83,237	(146,737)	(28,108)
Less net (income) loss attributable to noncontrolling interests	(2,191)	(3,429)	-	1,238
Net (loss) income attributable to Vornado	(93,799)	79,808	(146,737)	(26,870)
Interest and debt expense[2]	126,120	71,198	19,406	35,516
Depreciation and amortization[2]	174,811	108,403	42,681	23,727
Income tax expense [2]	3,261	1,090	265	1,906

EBITDA[1]	$ 210,393	$ 260,499 [3]	$ (84,385) [4]	$ 34,279 [5]

(Amounts in thousands)	For the Three Months Ended March 31, 2015			
	Total	New York	Washington, DC	Other
Total revenues	$ 606,802	$ 399,513	$ 133,968	$ 73,321
Total expenses	439,088	252,760	92,997	93,331
Operating income (loss)	167,714	146,753	40,971	(20,010)
(Loss) income from partially owned entities	(2,743)	(5,663)	131	2,789
Income from real estate fund investments	24,089	-	-	24,089
Interest and other investment income, net	10,792	1,862	13	8,917
Interest and debt expense	(91,674)	(45,351)	(18,160)	(28,163)
Net gain on disposition of wholly owned and partially owned assets	1,860	-	-	1,860
Income (loss) before income taxes	110,038	97,601	22,955	(10,518)
Income tax (expense) benefit	(971)	(943)	674	(702)
Income (loss) from continuing operations	109,067	96,658	23,629	(11,220)
Income from discontinued operations	16,179	-	-	16,179
Net income	125,246	96,658	23,629	4,959
Less net income attributable to noncontrolling interests	(21,169)	(1,506)	-	(19,663)
Net income (loss) attributable to Vornado	104,077	95,152	23,629	(14,704)
Interest and debt expense[2]	114,675	58,667	21,512	34,496
Depreciation and amortization[2]	156,450	94,124	40,752	21,574
Income tax (benefit) expense[2]	(739)	1,002	(2,636)	895
EBITDA[1]	$ 374,463	$ 248,945 [3]	$ 83,257 [4]	$ 42,261 [5]

See notes on the following pages.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

20. Segment Information – continued

Notes to preceding tabular information:

(1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." We consider EBITDA a non-GAAP financial measure for making decisions and assessing the unlevered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on a multiple of EBITDA, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.

(2)