VORNADO REALTY TRUST
Form 10-Q
November 02, 2010

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark one)

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

**OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: **September 30, 2010**

**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**

**<u>VORNADO REALTY TRUST</u>**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Maryland** | **22-1657560** |
| | (I.R.S. Employer Identification Number) |

(State or other jurisdiction of incorporation or organization)

| | |
|---|---|
| **888 Seventh Avenue, New York, New York** | **10019** |
| (Address of principal executive offices) | (Zip Code) |

**(212) 894-7000**

(Registrant s telephone number, including area code)

**N/A**

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

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

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

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

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

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

As of September 30, 2010, 182,670,995 of the registrant s common shares of beneficial interest are outstanding.

2

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

| (Amounts in thousands, except share and per share amounts) **ASSETS** | **September 30, 2010** | **December 31, 2009** |
|---|---|---|
| Real estate, at cost: | | |
| Land | $ 4,619,205 | $ 4,606,065 |
| Buildings and improvements | 13,092,999 | 12,902,086 |
| Development costs and construction in progress | 202,841 | 313,310 |
| Leasehold improvements and equipment | 128,004 | 128,056 |
| Total | 18,043,049 | 17,949,517 |
| Less accumulated depreciation and amortization | (2,772,079) | (2,494,441) |
| Real estate, net | 15,270,970 | 15,455,076 |
| Real Estate Fund investments (see Note 4) | 62,500 | - |
| Cash and cash equivalents | 846,254 | 535,479 |
| Restricted cash | 148,246 | 293,950 |
| Short-term investments | - | 40,000 |
| Marketable securities | 355,800 | 380,652 |
| Accounts receivable, net of allowance for doubtful accounts of $56,894 and $46,708 | 192,895 | 157,325 |
| Investments in partially owned entities | 953,011 | 799,832 |
| Investment in Toys "R" Us | 457,141 | 409,453 |
| Mezzanine loans receivable, net of allowance of $133,216 and $190,738 | 144,473 | 203,286 |
| Receivable arising from the straight-lining of rents, net of allowance of $5,901 and $4,680 | 726,248 | 681,526 |
| Deferred leasing and financing costs, net of accumulated amortization of $214,199 and $183,224 | 353,847 | 311,825 |
| Due from officers | 13,182 | 13,150 |
| Identified intangible assets, net of accumulated amortization of $354,199 and $312,957 | 385,337 | 442,510 |
| Other assets | 724,224 | 461,408 |
| | $ 20,634,128 | $ 20,185,472 |
| **LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY** | | |
| Notes and mortgages payable | $ 8,992,805 | $ 8,445,766 |
| Senior unsecured notes | 1,231,196 | 711,716 |
| Exchangeable senior debentures | 489,332 | 484,457 |
| Convertible senior debentures | 396,714 | 445,458 |
| Revolving credit facility debt | - | 852,218 |
| Accounts payable and accrued expenses | 507,755 | 475,242 |

| | | |
|---|---|---|
| Deferred credit | 632,427 | 682,384 |
| Deferred compensation plan | 88,559 | 80,443 |
| Deferred tax liabilities | 17,648 | 17,842 |
| Other liabilities | 372,695 | 88,912 |
| Total liabilities | 12,729,131 | 12,284,438 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests: | | |
| Class A units - 13,530,016 and 13,892,313 units outstanding | 1,157,222 | 971,628 |
| Series D cumulative redeemable preferred units - 10,400,000 and 11,200,000 units outstanding | 260,000 | 280,000 |
| Total redeemable noncontrolling interests | 1,417,222 | 1,251,628 |
| Vornado shareholders' equity: | | |
| Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 32,348,784 and 33,952,324 shares | 783,527 | 823,686 |
| Common shares of beneficial interest: $.04 par value per share; authorized, 250,000,000 shares; issued and outstanding 182,670,995 and 181,214,161 shares | 7,277 | 7,218 |
| Additional capital | 6,809,905 | 6,961,007 |
| Earnings less than distributions | (1,604,889) | (1,577,591) |
| Accumulated other comprehensive income | 45,272 | 28,449 |
| Total Vornado shareholders' equity | 6,041,092 | 6,242,769 |
| Noncontrolling interest in consolidated subsidiaries | 446,683 | 406,637 |
| Total equity | 6,487,775 | 6,649,406 |
| | $ 20,634,128 | $ 20,185,472 |

See notes to the consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**

**CONSOLIDATED STATEMENTS OF INCOME**
**(UNAUDITED)**

| (Amounts in thousands, except per share amounts) | For the Three Months Ended September 30, 2010 | 2009 | For the Nine Months Ended September 30, 2010 | 2009 |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Property rentals | $ 576,896 | $ 550,054 | $ 1,713,622 | $ 1,654,357 |
| Tenant expense reimbursements | 97,835 | 89,530 | 278,836 | 270,934 |
| Fee and other income | 32,301 | 31,635 | 107,010 | 98,284 |
| Total revenues | 707,032 | 671,219 | 2,099,468 | 2,023,575 |
| **EXPENSES:** | | | | |
| Operating | 281,548 | 265,952 | 828,528 | 814,561 |
| Depreciation and amortization | 134,755 | 130,503 | 405,844 | 398,845 |
| General and administrative | 56,557 | 51,684 | 154,869 | 180,381 |
| Litigation loss accrual, impairment losses and acquisition costs | 5,921 | - | 17,907 | - |
| Total expenses | 478,781 | 448,139 | 1,407,148 | 1,393,787 |
| Operating income | 228,251 | 223,080 | 692,320 | 629,788 |
| (Loss) income applicable to Toys "R" Us | (2,557) | 22,077 | 102,309 | 118,897 |
| (Loss) income from partially owned entities | (1,996) | 2,513 | 13,800 | (3,080) |
| (Loss) from Real Estate Fund (of which $1,091 is allocated to noncontrolling interests) | (1,410) | - | (1,410) | - |
| Interest and other investment income (loss), net | 47,352 | 20,486 | 65,936 | (63,608) |
| Interest and debt expense (including amortization of deferred financing costs of $5,200 and $4,350 in each three-month period, respectively, and $14,169 and $12,722 in each nine-month period, respectively) | (152,358) | (158,205) | (441,980) | (475,028) |
| Net (loss) gain on early extinguishment of debt | (724) | 3,407 | (1,796) | 26,996 |
| Net gain on disposition of wholly owned and partially owned assets other than depreciable real estate | 5,072 | 4,432 | 12,759 | 4,432 |

| | | | | |
|---|---|---|---|---|
| Income before income taxes | 121,630 | 117,790 | 441,938 | 238,397 |
| Income tax expense | (5,498) | (5,267) | (16,051) | (15,773) |
| Income from continuing operations | 116,132 | 112,523 | 425,887 | 222,624 |
| Income from discontinued operations | - | 43,321 | - | 49,276 |
| Net income | 116,132 | 155,844 | 425,887 | 271,900 |
| Net income attributable to noncontrolling interests, including unit distributions | (11,880) | (15,227) | (34,977) | (28,808) |
| Net income attributable to Vornado | 104,252 | 140,617 | 390,910 | 243,092 |
| Preferred share dividends | (13,442) | (14,269) | (41,975) | (42,807) |
| Discount on preferred share redemptions | 4,382 | - | 4,382 | - |
| **NET INCOME attributable to common shareholders** | $ 95,192 | $ 126,348 | $ 353,317 | $ 200,285 |
| | | | | |
| **INCOME PER COMMON SHARE - BASIC:** | | | | |
| Income from continuing operations, net | $ 0.52 | $ 0.48 | $ 1.94 | $ 0.91 |
| Income from discontinued operations, net | - | 0.23 | - | 0.27 |
| Net income per common share | $ 0.52 | $ 0.71 | $ 1.94 | $ 1.18 |
| Weighted average shares | 182,462 | 178,689 | 182,014 | 168,820 |
| | | | | |
| **INCOME PER COMMON SHARE - DILUTED:** | | | | |
| Income from continuing operations, net | $ 0.52 | $ 0.48 | $ 1.92 | $ 0.90 |
| Income from discontinued operations, net | - | 0.22 | - | 0.27 |
| Net income per common share | $ 0.52 | $ 0.70 | $ 1.92 | $ 1.17 |
| Weighted average shares | 184,168 | 180,977 | 183,826 | 170,378 |
| | | | | |
| **DIVIDENDS PER COMMON SHARE** | $ 0.65 | $ 0.65 | $ 1.95 | $ 2.55 |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)**

| (Amounts in thousands) | Preferred Shares | | Common Shares | | Additional | Earnings Less Than | Accumulated Other Comprehensive Income | Non-controlling | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Distributions | (Loss) | Interests | Equity |
| **Balance, December 31, 2008** | 33,954 | $ 823,807 | 155,286 | $ 6,195 | $ 6,025,976 | $ (1,047,340) | $ (6,899) | $ 412,913 | $ 6,214,652 |
| Net income (loss) | - | - | - | - | - | 243,092 | - | (3,442) | 239,650 |
| Dividends paid on common shares | - | - | 5,736 | 230 | 236,920 | (431,237) | - | - | (194,087) |
| Dividends paid on preferred shares | - | - | - | - | - | (42,809) | - | - | (42,809) |
| Common shares issued: | | | | | | | | | |
| In connection with April 2009 public offering | - | - | 17,250 | 690 | 709,536 | - | - | - | 710,226 |
| Upon redemption of Class A units, at redemption value | - | - | 1,222 | 48 | 53,043 | - | - | - | 53,091 |
| Under employees' share option plan | - | - | 28 | (14) | 1,219 | (440) | - | - | 765 |
| Conversion of Series A preferred shares to common shares | (2) | (89) | 2 | - | 89 | - | - | - | - |
| Deferred compensation | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| shares and options | - | - | - | 2 | 11,527 | - | - | - | 11,529 |
| Change in unrealized net gain or loss on securities available-for-sale | - | - | - | - | - | - | 4,099 | - | 4,099 |
| Our share of partially owned entities OCI adjustments | - | - | - | - | - | - | 11,846 | - | 11,846 |
| Voluntary surrender of equity awards on March 31, 2009 | - | - | - | - | 32,588 | - | - | - | 32,588 |
| Adjustments to carry redeemable Class A units at redemption value | - | - | - | - | (77,004) | - | - | - | (77,004) |
| Other | - | - | - | - | (763) | 7 | 7,443 | (3,325) | 3,362 |
| **Balance, September 30, 2009** | 33,952 | $ 823,718 | 179,524 | $ 7,151 | $ 6,993,131 | $ (1,278,727) | $ 16,489 | $ 406,146 | $ 6,967,908 |
| | | | | | | | | | |
| **Balance, December 31, 2009** | 33,952 | $ 823,686 | 181,214 | $ 7,218 | $ 6,961,007 | $ (1,577,591) | $ 28,449 | $ 406,637 | $ 6,649,406 |
| Net income | - | - | - | - | - | 390,910 | - | 1,490 | 392,400 |
| Dividends paid on common shares | - | - | - | - | - | (354,937) | - | - | (354,937) |
| Dividends paid on preferred shares | - | - | - | - | - | (42,100) | - | - | (42,100) |
| Redemption of preferred shares | (1,600) | (39,982) | - | - | - | 4,382 | - | - | (35,600) |
| Common shares issued: | | | | | | | | | |
| Upon redemption | | | | | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| of Class A units, at redemption value | - | - | 822 | 33 | 62,573 | - | - | - | 62,606 |
| Under employees' share option plan | - | - | 596 | 24 | 10,922 | (25,583) | - | - | (14,637) |
| Under dividend reinvestment plan | - | - | 17 | 1 | 1,231 | - | - | | 1,232 |
| Real Estate Fund limited partners' contributions | - | - | - | - | - | - | - | 37,698 | 37,698 |
| Conversion of Series A preferred shares to common shares | (3) | (177) | 5 | - | 177 | - | - | - | - |
| Deferred compensation shares and options | - | - | 17 | 1 | 6,155 | - | - | - | 6,156 |
| Change in unrealized net gain or loss on securities available-for-sale | - | - | - | - | - | - | 34,497 | - | 34,497 |
| Our share of partially owned entities OCI adjustments | - | - | - | - | - | - | (12,080) | - | (12,080) |
| Adjustments to carry redeemable Class A units at redemption value | - | - | - | - | (232,099) | - | - | - | (232,099) |
| Other | - | - | - | - | (61) | 30 | (5,594) | 858 | (4,767) |
| **Balance, September 30, 2010** | 32,349 | $ 783,527 | 182,671 | $ 7,277 | $ 6,809,905 | $ (1,604,889) | $ 45,272 | $ 446,683 | $ 6,487,775 |

See notes to consolidated financial statements (unaudited).

5

**VORNADO REALTY TRUST**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | **2010** | **2009** |
| (Amounts in thousands) | | |
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 425,887 | $ 271,900 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization (including amortization of deferred financing costs) | 419,638 | 413,697 |
| Equity in income of Toys “R” Us | (102,309) | (118,897) |
| Straight-lining of rental income | (55,581) | (75,702) |
| Amortization of below-market leases, net | (49,144) | (56,270) |
| Distributions of income from partially owned entities | 36,829 | 21,484 |
| Other non-cash adjustments | 36,058 | 119 |
| Income from the mark-to-market of derivative positions in marketable equity securities | (32,249) | - |
| Litigation loss accrual and impairment losses | 15,197 | - |
| Net gain on dispositions of assets other than depreciable real estate | (12,759) | (4,432) |
| Equity in income of partially owned entities | (13,800) | 3,080 |
| Mezzanine loans loss accrual | 6,900 | 122,738 |
| Net loss (gain) on early extinguishment of debt | 1,796 | (26,996) |
| Net gain on sale of real estate | - | (42,655) |
| Write-off of unamortized costs from the voluntary surrender of equity awards | - | 32,588 |
| Amortization of discount on convertible and exchangeable senior debentures | - | 29,106 |
| Changes in operating assets and liabilities: | | |
| Real Estate Fund investments | (62,500) | - |
| Accounts receivable, net | (6,468) | 11,611 |
| Prepaid assets | (45,104) | (119,608) |
| Other assets | (59,614) | (43,004) |
| Accounts payable and accrued expenses | 78,153 | 70,511 |
| Other liabilities | 13,791 | 217 |
| Net cash provided by operating activities | 594,721 | 489,487 |
| **Cash Flows from Investing Activities:** | | |
| Investments in partially owned entities | (159,053) | (28,738) |
| Proceeds from sales of, and return of investment in, marketable securities | 126,015 | 59,873 |
| Restricted cash | 125,204 | 81,195 |
| Proceeds from repayment of mezzanine loans receivable | 109,594 | 46,339 |

| | | |
|---|---|---|
| Additions to real estate | (98,789) | (145,981) |
| Development costs and construction in progress | (86,871) | (384,655) |
| Investments in mezzanine loans receivable and other | (75,697) | - |
| Proceeds from sales of real estate and related investments | 48,998 | 291,652 |
| Distributions of capital from partially owned entities | 45,613 | 13,112 |
| Proceeds from maturing short-term investments | 40,000 | - |
| Purchases of marketable securities | (13,917) | (11,597) |
| Deposits in connection with real estate acquisitions | (10,000) | 1,000 |
| Net cash provided by (used in) investing activities | 51,097 | (77,800) |

See notes to consolidated financial statements (unaudited).

**VORNADO REALTY TRUST**

**CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)**
**(UNAUDITED)**

| | For the Nine Months Ended September 30, | |
|---|---|---|
| | **2010** | **2009** |
| (Amounts in thousands) | | |
| **Cash Flows from Financing Activities:** | | |
| Proceeds from borrowings | $ 1,603,359 | $ 1,208,204 |
| Repayments of borrowings | (1,462,652) | (996,218) |
| Dividends paid on common shares | (354,937) | (194,087) |
| Purchases of outstanding preferred units and shares | (48,600) | (24,330) |
| Dividends paid on preferred shares | (42,100) | (42,809) |
| Distributions to noncontrolling interests | (41,055) | (30,291) |
| Contributions from noncontrolling interests | 39,351 | - |
| Repurchase of shares related to stock compensation agreements and related tax witholdings | (13,467) | 22 |
| Debt issuance costs | (14,942) | (9,246) |
| Proceeds from issuance of common shares | - | 710,226 |
| Net cash (used in) provided by financing activities | (335,043) | 621,471 |
| Net increase in cash and cash equivalents | 310,775 | 1,033,158 |
| Cash and cash equivalents at beginning of period | 535,479 | 1,526,853 |
| Cash and cash equivalents at end of period | $ 846,254 | $ 2,560,011 |
| | | |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash payments for interest (including capitalized interest of $875 and $14,054) | $ 409,953 | $ 461,802 |
| Cash payments for income taxes | $ 5,348 | $ 6,880 |
| | | |
| **Non-Cash Investing and Financing Activities:** | | |
| Investment in J.C. Penney, Inc | $ 271,372 | $ - |
| Adjustments to carry redeemable Class A units at redemption value | (232,099) | (77,004) |
| Redemption of Class A Operating Partnership units for common shares, at redemption value | 62,606 | 53,091 |
| Unrealized net gain on securities available for sale | 34,497 | 4,099 |
| Extinguishment of a liability in connection with the acquisition of real estate | 20,500 | - |
| Dividends paid in common shares | - | 237,150 |
| Unit distributions paid in Class A units | - | 20,072 |

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 Vornado Realty L.P., a Delaware limited partnership (the "Operating Partnership"). Vornado is the sole general partner of, and owned approximately 92.8% of the common limited partnership interest in the Operating Partnership at September 30, 2010. All references to "we," "us," "our," the "Company" and "Vornado" refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

Substantially all of Vornado's assets are held through subsidiaries of the Operating Partnership. Accordingly, Vornado's cash flow and ability to pay dividends to its shareholders is dependent upon the cash flow of the Operating Partnership and the ability of its direct and indirect subsidiaries to first satisfy their obligations to creditors.

## 2. Basis of Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado, and the Operating Partnership and its consolidated partially owned entities. All intercompany amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. We have made estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (the "SEC") and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Reports on Form 10-K and Form 10-K/A for the year ended December 31, 2009, as filed with the SEC. The results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the operating results for the full year.

**3. Recently Issued Accounting Literature**

On January 21, 2010, the Financial Accounting Standards Board ("FASB") issued an update to Accounting Standards Codification ("ASC") 820, *Fair Value Measurements and Disclosures*, adding new requirements for disclosures about transfers into and out of Levels 1 and 2 fair value measurements and additional disclosures about the activity within Level 3 fair value measurements. The application of this guidance on January 1, 2010 did not have a material effect on our consolidated financial statements.

In June 2009, the FASB issued an update to ASC 810, *Consolidation*, which modifies the existing quantitative guidance used in determining the primary beneficiary of a variable interest entity ("VIE") by requiring entities to qualitatively assess whether an enterprise is a primary beneficiary, based on whether the entity has (i) power over the significant activities of the VIE, and (ii) an obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The adoption of this guidance on January 1, 2010 did not have a material effect on our consolidated financial statements.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

## 4. Vornado Capital Partners, L.P.

On July 6, 2010, we completed the first closing of Vornado Capital Partners, L.P., our real estate investment fund (the Fund ), with aggregate equity commitments of $550,000,000, of which we committed $200,000,000. We expect to raise an additional $450,000,000 bringing total commitments to $1 billion. We are the general partner and investment manager of the Fund and it is our exclusive investment vehicle during the three-year investment period for all investments that fit within the Fund s investment parameters, including debt, equity and other interests in real estate, and excluding (i) investments in vacant land and ground-up development; (ii) investments acquired by merger or primarily for our securities or properties; (iii) properties which can be combined with or relate to our existing properties; (iv) securities of commercial mortgage loan servicers and investments derived from any such investments; (v) noncontrolling interests in equity and debt securities; and (vi) investments located outside of North America. The Fund has a term of eight years from the final closing date. 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. In the three and nine months ended September 30, 2010, we expensed $3,752,000 and $6,482,000, respectively, for organization costs, which are included as a component of general and administrative expenses on our consolidated statement of income.

In September 2010, the Fund received $59,240,000 of capital from partners, including $21,542,000 from us. In October 2010, the Fund received an additional $53,300,000 of capital from partners, including $19,382,000 from us, for total capital contributions to date of $112,540,000. In the third quarter of 2010, the Fund acquired two investments aggregating $42,500,000 in cash, and in October 2010, the Fund acquired a third investment for $168,000,000, of which $100,000,000 was mortgage financed and $68,000,000 was paid in cash. In addition, the Fund reimbursed us for $1,500,000 of organization costs.

## 5. Derivative Instruments and Marketable Securities

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

We currently own an economic interest in 23,400,000 common shares of J.C Penney, or 9.9% of its outstanding common shares. Below are the details of our investment.

In September 2010, we acquired 2,684,010 common shares at an average price of $26.87 per share, or $72,107,000 in the aggregate. These shares are included as a component of marketable equity securities on our consolidated balance sheet and are classified as available for sale. Gains or losses resulting from the mark-to-market of these shares are recognized as an increase or decrease in accumulated other comprehensive income (a component of shareholders equity on our consolidated balance sheet) and not recognized in income. In the quarter ended September 30, 2010, we recognized an $845,000 unrealized gain based on J.C. Penney s September 30, 2010 closing share price of $27.18 per share. In October 2010, we acquired an additional 400,000 common shares at an average price of $27.46 per share, or $10,983,000 in the aggregate. Accordingly, we currently own 3,084,010 common shares at an average price of $26.94 per share, or $83,090,000 in the aggregate.

On September 28, 2010, we acquired call options to purchase 15,500,000 common shares at a strike price of $12.2437 per share for $199,265,000, which expire on March 27, 2012. We may exercise all or portions of the options prior to expiration. The options may be settled, at our election, in cash or common shares. These options are derivative instruments that do not qualify for hedge accounting treatment. Gains or losses resulting from the mark-to-market of the derivative instruments are recognized as an increase or decrease in interest and other investment income (loss), net on our consolidated statement of income. In the quarter ended September 30, 2010, we recognized a $32,249,000 net gain, based on J.C. Penney s September 30, 2010 closing share price of $27.18 per share and our weighted average cost of $25.10 per share. At September 30, 2010, the $199,265,000 cost of the options and the $32,249,000 mark-to-market increase in the value of the options are included in other assets and the $199,265,000 settled on October 1, 2010 is included in other liabilities on our consolidated balance sheet.

On October 7, 2010, we entered into a forward contract to acquire 4,815,990 common shares at an initial weighted average strike price of $28.41 per share. We may accelerate settlement, in whole or in part, at any time prior to October 9, 2012. The counterparty may accelerate settlement, in whole or in part, upon one year s notice to us. The forward contract may be settled, at our election, in cash or common shares. Pursuant to the terms of the contract, the strike price for each share increases at an annual rate of LIBOR plus 80 basis points and decreases for dividends received on the shares. The contract is a derivative instrument that does not qualify for hedge accounting treatment. Gains or losses resulting from the mark-to-market of the derivative instrument are recognized as an increase or decrease in interest and other investment income (loss), net on our consolidated statement of income.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

## 5. Derivative Instruments and Marketable Securities - continued

*Marketable Securities*

The carrying amount of marketable securities classified as available for sale on our consolidated balance sheets and their corresponding fair values at September 30, 2010 and December 31, 2009 are as follows:

| | As of September 30, 2010 | | As of December 31, 2009 | |
|---|---|---|---|---|
| (Amounts in thousands) | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Equity securities | $ 159,980 | $ 159,980 | $ 79,925 | $ 79,925 |
| Debt securities | 195,820 | 195,820 | 300,727 | 319,393 |
| | $ 355,800 | $ 355,800 | $ 380,652 | $ 399,318 |

In the nine months ended September 30, 2010, we sold certain of our investments in marketable securities for an aggregate of $155,118,000 and recognized an $8,960,000 net gain, of which $5,052,000 was recognized in the third quarter of 2010. Such gain is included as a component of "net gain on disposition of wholly owned and partially owned assets other than depreciable real estate" on our consolidated statement of income. At September 30, 2010 and December 31, 2009, our marketable securities portfolio had $40,990,000 and $13,026,000, respectively, of gross unrealized gains. There were no unrealized losses at September 30, 2010 and $1,223,000 of gross unrealized losses at December 31, 2009.

## 6. Investments in Partially Owned Entities

*LNR Property Corporation ( LNR )*

On July 29, 2010, as a part of LNR s recapitalization, we acquired a 26.2% equity interest in LNR for $116,000,000 in cash and conversion into equity of our $15,000,000 mezzanine loan (the then current carrying amount) made to LNR s parent, Riley Holdco Corp. The recapitalization involved an infusion of a total of $417,000,000 in new cash equity and the reduction of LNR s total debt to $425,000,000 from $1.3 billion, excluding liabilities related to the consolidated CMBS and CDO trusts described below. We account for our equity interest in LNR under the equity method. Upon finalization of purchase accounting in the fourth quarter, we will recognize our 26.2% pro-rata share of LNR s earnings for the period from July 29, 2010 (date of acquisition) to September 30, 2010, which will not be material to our consolidated statement of income, as well as our share of their fourth quarter earnings.

LNR consolidates certain commercial mortgage-backed securities ( CMBS ) and Collateralized Debt Obligation ( CDO ) trusts for which it is the primary beneficiary. The assets of these trusts (primarily commercial mortgage loans) are the sole source of repayment of the related liabilities, which are non-recourse to LNR and its equity holders, including us. Changes in the estimated fair value of the assets and liabilities of these trusts each period are recognized in LNR s consolidated income statement and allocated to the noncontrolling interests, which is applied to appropriated deficit on LNR s consolidated balance sheet and not to LNR s equity holders, including us.

Below is a summary of LNR s consolidated balance sheet at July 29, 2010:

| (Amounts in thousands) | | As of |
|---|---|---|
| **Balance Sheet:** | | **July 29, 2010** |
| | Assets | $ 120,569,958 |
| | Liabilities | 142,795,134 |
| | Noncontrolling interests | 55,754 |
| | Stockholders' deficiency (including appropriated deficit of $22,479,116) | (22,280,930) |

10

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**6. Investments in Partially Owned Entities - continued**

*Toys R Us ( Toys )*

As of September 30, 2010, we own 32.7% of Toys. The business of Toys is highly seasonal. Historically, Toys fourth quarter net income accounts for more than 80% of its fiscal year net income. We account for our investment in Toys under the equity method and record our 32.7% share of Toys net income or loss on a one-quarter lag basis because Toys fiscal year ends on the Saturday nearest January 31, and our fiscal year ends on December 31. As of September 30, 2010, the carrying amount of our investment in Toys does not differ materially from our share of the equity in the net assets of Toys on a purchase accounting basis.

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

In August 2010, in connection with certain financing and refinancing transactions, Toys paid us an aggregate of $9,600,000 for our share of advisory fees. Since Toys has capitalized these fees and is amortizing them over the term of the related debt, we recorded the fees as a reduction of the basis of our investment in Toys and will amortize the fees into income over the term of the related debt.

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

| (Amounts in thousands) | **Balance as of** | |
|---|---|---|
| **Balance Sheet:** | **July 31, 2010** | **October 31, 2009** |
| Assets | $ 11,243,000 | $ 12,589,000 |
| Liabilities | 9,717,000 | 11,198,000 |
| Noncontrolling interests | - | 112,000 |

| | | | | |
|---|---|---|---|---|
| Toys R Us, Inc. equity | | | 1,526,000 | 1,279,000 |

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| **Income Statement:** | **July 31, 2010** | **August 1, 2009** | **July 31, 2010** | **August 1, 2009** |
| Total revenues | $ 2,565,000 | $ 2,567,000 | $ 11,030,000 | $ 10,505,000 |
| Net (loss) income attributable to Toys | $ (15,500) | $ 62,000 | $ 292,500 | $ 304,000 |

## *Alexander s, Inc. ( Alexander s ) (NYSE: ALX)*

As of September 30, 2010, we own 32.4% of the outstanding common stock of Alexander s. We manage, lease and develop Alexander s properties pursuant to agreements which expire in March of each year and are automatically renewable. As of September 30, 2010, Alexander s owed us $58,409,000 in fees under these agreements.

Based on Alexander s September 30, 2010 closing share price of $315.78, the market value ( fair value pursuant to ASC 820) of our investment in Alexander s is $522,322,000, or $322,634,000 in excess of the September 30, 2010 carrying amount on our consolidated balance sheet. As of September 30, 2010, the carrying amount of our investment in Alexander s, excluding amounts owed to us, exceeds our share of the equity in the net assets of Alexander s by approximately $59,868,000. 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 the real estate (land and buildings). The basis difference related to the buildings is being amortized over their estimated useful lives as an adjustment to our equity in net income of Alexander s. This amortization is not material to our share of equity in Alexander s net income or loss. The basis difference related to the land will be recognized upon disposition of our investment.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**6. Investments in Partially Owned Entities - continued**

*Alexander s, Inc. ( Alexander s ) (NYSE: ALX) continued*

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

| (Amounts in thousands) | Balance as of | |
|---|---|---|
| **Balance Sheet:** | **September 30, 2010** | **December 31, 2009** |
| Assets | $ 1,718,000 | $ 1,704,000 |
| Liabilities | 1,379,000 | 1,389,000 |
| Noncontrolling interests | 3,000 | 2,000 |
| Stockholders' equity | 336,000 | 313,000 |

| | For the Three Months Ended | | For the Nine Months Ended | |
|---|---|---|---|---|
| **Income Statement:** | **September 30, 2010** | **September 30, 2009** | **September 30, 2010** | **September 30, 2009** |
| Total revenues | $ 61,000 | $ 58,000 | $ 179,000 | $ 166,000 |
| Net income attributable to Alexander s | $ 18,000 | $ 58,000 | $ 49,000 | $ 117,000 |

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

As of September 30, 2010, we own 18,468,969 Lexington common shares, or approximately 13.7% of Lexington s common equity. We account for our investment in Lexington on the equity method because we believe we have the ability to exercise significant influence over Lexington s operating and financial policies, based on, among other factors, our representation on Lexington s Board of Trustees and the level of our ownership in Lexington as compared to other shareholders. We record our pro rata share of Lexington s net income or loss on a one-quarter lag basis because we file our consolidated financial statements on Form 10-K and 10-Q prior to the time that Lexington files its financial statements.

Based on Lexington s September 30, 2010 closing share price of $7.16, the market value ( fair value pursuant to ASC 820) of our investment in Lexington was $132,238,000, or $80,804,000 in excess of the September 30, 2010 carrying amount on our consolidated balance sheet. As of September 30, 2010, the carrying amount of our investment in Lexington was less than our share of the equity in the net assets of Lexington by approximately $69,788,000. This basis difference resulted primarily from $107,882,000 of non-cash impairment charges recognized during 2008, partially offset by purchase accounting for our acquisition of an additional 8,000,000 common shares of Lexington in October 2008, of which the majority relates to our estimate of the fair values of Lexington s real estate (land and buildings) as compared to the carrying amounts in Lexington s consolidated financial statements. The basis difference related to the buildings is being amortized over their estimated useful lives as an adjustment to our equity in net income or loss of Lexington. This amortization is not material to our share of equity in Lexington s net income or loss. The basis difference attributable to the land will be recognized upon disposition of our investment. Below is a summary of Lexington s latest available financial information:

| (Amounts in thousands) | Balance as of | |
|---|---|---|
| **Balance Sheet:** | **June 30, 2010** | **September 30, 2009** |
| Assets | $ 3,513,000 | $ 3,702,000 |
| Liabilities | 2,224,000 | 2,344,000 |
| Noncontrolling interests | 79,000 | 94,000 |
| Shareholders equity | 1,210,000 | 1,264,000 |

| | **For the Three Months Ended June 30,** | | **For the Nine Months Ended June 30,** | |
|---|---|---|---|---|
| **Income Statement:** | **2010** | **2009** | **2010** | **2009** |
| Total revenues | $ 86,000 | $ 94,000 | $ 264,000 | $ 284,000 |
| Net loss attributable to Lexington | $ (24,000) | $ (77,000) | $ (97,000) | $ (156,000) |

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

## 6. Investments in Partially Owned Entities - continued

The carrying amount of our investments in partially owned entities and income (loss) recognized from such investments are as follows:

| | Balance as of | |
|---|---|---|
| (Amounts in thousands) | **September 30,** | **December 31,** |
| **Investments:** | **2010** | **2009** |
| Toys | $ 457,141 | $ 409,453 |
| | | |
| Alexander’s | $ 199,688 | $ 193,174 |
| Partially owned office buildings | 155,754 | 158,444 |
| LNR (see page 10) | 131,000 | - |
| India real estate ventures | 126,211 | 93,322 |
| Lexington | 51,434 | 55,106 |
| Other equity method investments | 288,924 | 299,786 |
| | $ 953,011 | $ 799,832 |

| | **For the Three Months Ended September 30,** | | **For the Nine Months Ended September 30,** | |
|---|---|---|---|---|
| (Amounts in thousands) | | | | |
| **Our Share of Net (Loss) Income:** | **2010** | **2009** | **2010** | **2009** |
| **Toys:** | | | | |
| 32.7% share of: | | | | |
| Equity in net (loss) income before income taxes | $ (32,574) | $ (15,985) (1) | $ 93,662 | $ 106,545 (1) |
| Income tax benefit (expense) | 27,501 | 36,122 | 1,914 | (7,335) |
| Equity in net (loss) income | (5,073) | 20,137 (1) | 95,576 | 99,210 (1) |
| Non-cash purchase price accounting adjustments | - | - | - | 13,946 |
| Interest and other income | 2,516 | 1,940 | 6,733 | 5,741 |
| | $ (2,557) | $ 22,077 | $ 102,309 | $ 118,897 |

**Alexander’s** – 32.4% share of:

| | | | | |
|---|---|---|---|---|
| Equity in net income before reversal of stock appreciation rights compensation expense | $ 4,971 | $ 5,088 | $ 13,668 | $ 12,906 |
| Income tax benefit and reversal of stock appreciation rights compensation expense | 641 | 13,668 | 641 | 24,773 |
| Equity in net income | 5,612 | 18,756 | 14,309 | 37,679 |
| Management, leasing and development fees | 1,945 | 2,541 | 6,774 | 8,365 |
| | 7,557 | 21,297 | 21,083 | 46,044 |
| **Lexington** – 13.7% share in 2010 and 16.1% share in 2009 of equity in net (loss) income | (2,301) | (15,054) (2) | 3,316 (3) | (24,969) (2) |
| **India real estate ventures** – 4% to 36.5% range in our share of equity in net (loss) income | (195) | (465) | 2,062 | (1,386) |
| **Other,** net (4) | (7,057) | (3,265) | (12,661) | (22,769) (5) |
| | $ (1,996) | $ 2,513 | $ 13,800 | $ (3,080) |

(1) Includes $10,200 for our share of income from a litigation settlement.

(2) The three and nine months ended September 30, 2009 include $14,541 and $19,121, respectively, for our share of non-cash impairment losses recognized by Lexington.

(3) Includes a $5,998 net gain resulting from Lexington's March 2010 stock issuance.

(4) Represents equity in net income or loss of partially owned office buildings in New York and Washington, DC, the Monmouth Mall, Verde Realty Operating Partnership, 85 10th Avenue Associates and others.

(5) Includes $7,650 of expense for our share of the Downtown Crossing, Boston lease termination payment.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**6. Investments in Partially Owned Entities continued**

Below is a summary of the debt of our partially owned entities as of September 30, 2010 and December 31, 2009; none of which is recourse to us.

| (Amounts in thousands) | Maturity | Interest Rate at September 30, 2010 | 100% of Partially Owned Entities Debt at September 30, 2010 | December 31, 2009 |
|---|---|---|---|---|
| **Toys (32.7% interest) (as of July 31, 2010 and October 31, 2009, respectively):** | | | | |
| Senior unsecured notes (Face value $950,000) | 07/17 | 10.75 % | $ 927,499 | $ 925,931 |
| Senior unsecured notes (Face value $725,000) | 12/17 | 8.50 % | 715,339 | - |
| $1.6 billion credit facility | 05/12 | 5.25 % | 52,510 | 418,777 |
| $800 million secured term loan facility | 07/12 | 4.51 % | 798,433 | 797,911 |
| Senior U.K. real estate facility | 04/13 | 5.02 % | 550,037 | 578,982 |
| 7.625% bonds (Face value $500,000) | 08/11 | 8.82 % | 494,566 | 490,613 |
| 7.875% senior notes (Face value $400,000) | 04/13 | 9.50 % | 384,905 | 381,293 |
| 7.375% senior notes (Face value $400,000) | 10/18 | 9.99 % | 342,351 | 338,989 |
| $181 million unsecured term loan facility | 01/13 | 5.26 % | 180,567 | 180,456 |
| Spanish real estate facility | 02/13 | 4.51 % | 168,432 | 191,436 |
| Japan borrowings | 03/11 | 0.83 % | 127,600 | 168,720 |
| Japan bank loans | 01/11-08/14 | 1.20%-2.85% | 175,367 | 172,902 |
| Junior U.K. real estate facility | 04/13 | 6.84 % | 96,380 | 101,861 |
| French real estate facility | 02/13 | 4.51 % | 81,255 | 92,353 |
| 8.750% debentures (Face value $21,600) | 09/21 | 9.17 % | 21,046 | 21,022 |
| Mortgage loan | n/a | n/a | - | 800,000 |
| European and Australian asset-based revolving credit facility | 10/12 | n/a | - | 102,760 |

| | | | | |
|---|---|---|---|---|
| Other | Various | 8.50 % | 152,543 | 136,206 |
| | | | 5,268,830 | 5,900,212 |
| **Alexander s (32.4% interest):** | | | | |
| 731 Lexington Avenue mortgage note payable, collaterallized by the office space (prepayable without penalty after 12/13) | 02/14 | 5.33 % | 354,630 | 362,989 |
| 731 Lexington Avenue mortgage note payable, collateralized by the retail space (prepayable without penalty after 12/13) | 07/15 | 4.93 % | 320,000 | 320,000 |
| Rego Park construction loan payable | 12/10 | 1.66 % | 296,665 | 266,411 |
| Kings Plaza Regional Shopping Center mortgage note payable (prepayable without penalty after 12/10) | 06/11 | 7.46 % | 152,408 | 183,319 |
| Rego Park mortgage note payable (prepayable without penalty) | 03/12 | 0.75 % | 78,246 | 78,246 |
| Paramus mortgage note payable (prepayable without penalty) | 10/11 | 5.92 % | 68,000 | 68,000 |
| | | | 1,269,949 | 1,278,965 |
| **Lexington (13.7% interest) (as of June 30, 2010 and September 30, 2009, respectively):** | | | | |
| Mortgage loans collateralized by Lexington s real estate (various prepayment terms) | 2010-2037 | 5.78 % | 2,033,209 | 2,132,253 |
| **LNR (26.2% interest):** | | | | |
| Mortgage notes payable | 2011-2043 | 5.75 % | 512,360 | - |
| Liabilities of consolidated CMBS and CDO trusts | n/a | 6.06 % | 141,893,340 | - |
| | | | 142,405,700 | - |

14

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**6. Investments in Partially Owned Entities - continued**

| (Amounts in thousands) | Maturity | Interest Rate at September 30, 2010 | 100% of Partially Owned Entities Debt at September 30, 2010 | December 31, 2009 |
|---|---|---|---|---|
| **Partially owned office buildings:** | | | | |
| 330 Madison Avenue (25% interest) mortgage note payable | 06/15 | 1.91 % | $ 150,000 | $ 150,000 |
| Kaempfer Properties (2.5% and 5.0% interests in two partnerships) mortgage notes payable, collateralized by the partnerships real estate | 11/11-12/11 | 5.86 % | 139,896 | 141,547 |
| 100 Van Ness, San Francisco office complex (9% construction interest) up to $132 million loan payable | 07/13 | 6.50 % | 85,249 | 85,249 |
| Fairfax Square (20% interest) mortgage note payable (prepayable without penalty after 07/14) | 12/14 | 7.00 % | 71,953 | 72,500 |
| Rosslyn Plaza (46% interest) mortgage note payable | 12/11 | 1.47 % | 56,680 | 56,680 |
| 330 West 34th Street (34.8% interest) mortgage note payable, collateralized by land; we obtained a fee interest in the land upon foreclosure of our $9,041 mezzanine loan in 2010 | 07/22 | 5.71 % | 50,150 | - |
| West 57th Street (50% interest) mortgage note payable (prepayable without penalty) | 02/14 | 4.94 % | 23,007 | 29,000 |
| 825 Seventh Avenue (50% interest) mortgage note payable (prepayable without penalty after 04/14) | 10/14 | 8.07 % | 20,680 | 20,773 |

| | | | | |
|---|---|---|---|---|
| **India Real Estate Ventures:** | | | | |
| TCG Urban Infrastructure Holdings (25% interest) mortgage notes payable, collateralized by the entity s real estate (various prepayment terms) | 2010-2022 | 13.39 % | 198,360 | 178,553 |
| India Property Fund L.P. (36.5% interest) revolving credit facility, repaid upon maturity in 03/10 | n/a | n/a | - | 77,000 |
| **Other:** | | | | |
| Verde Realty Operating Partnership (8.3% interest) mortgage notes payable, collateralized by the partnerships real estate (various prepayment terms) | 2010-2025 | 5.85 % | 582,982 | 607,089 |
| Green Courte Real Estate Partners, LLC (8.3% interest) (as of June 30, 2010 and September 30, 2009), mortgage notes payable, collateralized by the partnerships real estate (various prepayment terms) | 2011-2018 | 5.51 % | 299,601 | 304,481 |
| Waterfront Associates (2.5% interest) construction and land loan up to $250 million payable | 09/11 | 2.26% - 3.76% | 214,011 | 183,742 |
| Monmouth Mall (50% interest) mortgage note payable (prepayable without penalty after 07/15) | 09/15 | 5.44 % | 165,000 | 165,000 |
| San Jose, California (45% interest) construction loan[(1)] | 03/13 | 4.32 % | 127,917 | 132,570 |
| Wells/Kinzie Garage (50% interest) mortgage note payable | 12/13 | 6.87 % | 14,537 | 14,657 |
| Orleans Hubbard Garage (50% interest) mortgage note payable | 12/13 | 6.87 % | 10,019 | 10,101 |
| Other | | | 431,222 | 425,717 |

(1) On October 15, 2010, we acquired the remaining 55% interest in this property for $97,000, consisting of $27,000 in cash and the assumption of $70,000 of existing debt. We will consolidate the accounts of this property into our consolidated financial statements in the fourth quarter, from the date of acquisition.

Based on our ownership interest in the partially owned entities above, our pro rata share of the debt of these partially owned entities, was $40,139,660,000 and $3,149,640,000 as of September 30, 2010 and December 31, 2009, respectively. Excluding our pro rata share of LNR s liabilities related to consolidated CMBS and CDO trusts which are non-recourse to LNR and its equity holders, including us, our pro rata share of the debt is $3,000,497,000 at September 30, 2010 and $3,149,640,000 at December 31, 2009.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**7. Mezzanine Loans Receivable**

The following is a summary of our investments in mezzanine loans as of September 30, 2010 and December 31, 2009.

| (Amounts in thousands) **Mezzanine Loans Receivable:** | **Maturity** | **Interest Rate as of September 30, 2010** | **Carrying Amount as of September 30, 2010** | **Carrying Amount as of December 31, 2009** |
|---|---|---|---|---|
| Tharaldson Lodging Companies | 04/11 | 4.56 % | $ 71,959 | $ 74,701 |
| 280 Park Avenue | 06/16 | 10.25 % | 68,422 | 73,750 |
| Equinox (1) | n/a | n/a | - | 97,968 |
| Riley HoldCo Corp. (see discussion of LNR in Note 6) | n/a | n/a | - | 74,437 |
| Other, net | 8/11-8/15 | 1.36% - 8.95% | 137,308 | 73,168 |
| | | | 277,689 | 394,024 |
| Valuation allowance (2) | | | (133,216) | (190,738) |
| | | | $ 144,473 | $ 203,286 |

(1) In January 2010, Equinox prepaid the entire balance of this loan which was scheduled to mature in February 2013. We received $99,314, including accrued interest, for our 50% interest in the loan which we acquired in 2006 for $57,500.

(2) Represents loan loss accruals on certain mezzanine loans based on our estimate of the net realizable value of each loan. Our estimates are based on the present value of expected cash flows, discounted at each loan s effective interest rate, or if a loan is collateralized, based on the fair value of the underlying collateral, adjusted for estimated costs to sell. The excess of the carrying amount over the net realizable value of a loan is recognized as a reduction of interest and other investment income (loss), net in our consolidated statements of income.

**8. Discontinued Operations**

The table below sets forth the combined results of operations of assets related to discontinued operations for the three and nine months ended September 30, 2010 and 2009 and includes the operating results of 1999 K Street, which was sold on September 1, 2009 and 15 other retail properties, which were sold during 2009.

| (Amounts in thousands) | For the Three Months Ended September 30, 2010 | For the Three Months Ended September 30, 2009 | For the Nine Months Ended September 30, 2010 | For the Nine Months Ended September 30, 2009 |
|---|---|---|---|---|
| Total revenues | $ - | $ 1,356 | $ - | $ 9,846 |
| Total expenses | - | 690 | - | 3,225 |
| Net income | - | 666 | - | 6,621 |
| Net gain on sale of 1999 K Street | - | 41,211 | - | 41,211 |
| Net gains on sale of other real estate | - | 1,444 | - | 1,444 |
| Income from discontinued operations | $ - | $ 43,321 | $ - | $ 49,276 |

16

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

## 9. Identified Intangible Assets and Intangible Liabilities

The following summarizes our identified intangible assets (primarily acquired above-market leases) and intangible liabilities (primarily acquired below-market leases) as of September 30, 2010 and December 31, 2009.

| | Balance as of | |
|---|---|---|
| (Amounts in thousands) | September 30, 2010 | December 31, 2009 |
| **Identified intangible assets:** | | |
| Gross amount | $ 739,536 | $ 755,467 |
| Accumulated amortization | (354,199) | (312,957) |
| Net | $ 385,337 | $ 442,510 |
| **Identified intangible liabilities (included in deferred credit):** | | |
| Gross amount | $ 925,845 | $ 942,968 |
| Accumulated amortization | (348,845) | (309,476) |
| Net | $ 577,000 | $ 633,492 |

Amortization of acquired below-market leases, net of acquired above-market leases resulted in an increase to rental income of $16,935,000 and $18,728,000 for the three months ended September 30, 2010 and 2009, respectively, and $49,144,000 and $56,270,000 for the nine months ended September 30, 2010 and 2009, 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, 2011 is as follows:

| (Amounts in thousands) | |
|---|---|
| 2011 | $ 58,593 |
| 2012 | 54,285 |
| 2013 | 46,355 |
| 2014 | 40,397 |
| 2015 | 37,555 |

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was $15,198,000 and $15,698,000 for the three months ended September 30, 2010 and 2009, respectively, and

$45,926,000 and $49,262,000 for the nine months ended September 30, 2010 and 2009, 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, 2011 is as follows:

| (Amounts in thousands) | | |
|---|---|---|
| 2011 | $ | 51,703 |
| 2012 | | 46,388 |
| 2013 | | 38,894 |
| 2014 | | 20,083 |
| 2015 | | 14,990 |

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 $509,000 and $533,000 for the three months ended September 30, 2010 and 2009, respectively and $1,527,000 and $1,599,000 for the nine months ended September 30, 2010 and 2009, respectively. Estimated annual amortization of these below-market leases, net of above-market leases for each of the five succeeding years commencing January 1, 2011 is as follows:

| (Amounts in thousands) | | |
|---|---|---|
| 2011 | $ | 2,036 |
| 2012 | | 2,036 |
| 2013 | | 2,036 |
| 2014 | | 2,036 |
| 2015 | | 2,036 |

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**10. Debt**

The following is a summary of our debt:

| (Amounts in thousands) | | Interest Rate at September 30, | Balance at | |
|---|---|---|---|---|
| **Notes and mortgages payable:** | **Maturity (1)** | **2010** | **September 30, 2010** | **December 31, 2009** |
| **Fixed rate:** | | | | |
| New York Office: | | | | |
| 350 Park Avenue | 01/12 | 5.48 % | $ 430,000 | $ 430,000 |
| 1290 Avenue of the Americas | 01/13 | 5.97 % | 426,826 | 434,643 |
| 770 Broadway | 03/16 | 5.65 % | 353,000 | 353,000 |
| 888 Seventh Avenue | 01/16 | 5.71 % | 318,554 | 318,554 |
| Two Penn Plaza | 02/11 | 4.97 % | 278,667 | 282,492 |
| 909 Third Avenue | 04/15 | 5.64 % | 207,976 | 210,660 |
| Eleven Penn Plaza | 12/11 | 5.20 % | 200,287 | 203,198 |
| Washington, DC Office: | | | | |
| Skyline Place | 02/17 | 5.74 % | 678,000 | 678,000 |
| Warner Building (see page 28) | 05/16 | 6.26 % | 292,700 | 292,700 |
| River House Apartments | 04/15 | 5.43 % | 195,546 | 195,546 |
| Bowen Building | 06/16 | 6.14 % | 115,022 | 115,022 |
| 1215 Clark Street, 200 12th Street and 251 18th Street | 01/25 | 7.09 % | 111,711 | 113,267 |
| Universal Buildings | 04/14 | 6.37 % | 103,957 | 106,630 |
| Reston Executive I, II, and III | 01/13 | 5.57 % | 93,000 | 93,000 |
| 2011 Crystal Drive | 08/17 | 7.30 % | 81,641 | 82,178 |
| 1550 and 1750 Crystal Drive | 11/14 | 7.08 % | 80,030 | 81,822 |
| 1235 Clark Street | 07/12 | 6.75 % | 52,557 | 53,252 |
| 2231 Crystal Drive | 08/13 | 7.08 % | 46,916 | 48,533 |
| 1750 Pennsylvania Avenue | 06/12 | 7.26 % | 45,326 | 45,877 |
| 1225 Clark Street | 08/13 | 7.08 % | 28,064 | 28,925 |
| 1800, 1851 and 1901 South Bell Street | 12/11 | 6.91 % | 12,486 | 19,338 |

| | | | | | |
|---|---|---|---|---|---|
| | 1101 17th, 1140 Connecticut, 1730 M and 1150 17th Street[2] | n/a | n/a | - | 85,910 |
| | 241 18th Street[3] | n/a | n/a | - | 45,609 |
| Retail: | | | | | |
| | Cross-collateralized mortgages on 40 strip shopping centers[4] | 09/20 | 4.18 % | 600,000 | - |
| | Springfield Mall (including present value of purchase option)[5] | 10/12-04/13 | 9.02 % | 249,789 | 242,583 |
| | Montehiedra Town Center | 07/16 | 6.04 % | 120,000 | 120,000 |
| | Broadway Mall | 07/13 | 5.30 % | 90,833 | 92,601 |
| | 828-850 Madison Avenue Condominium | 06/18 | 5.29 % | 80,000 | 80,000 |
| | Las Catalinas Mall | 11/13 | 6.97 % | 58,139 | 59,304 |
| | Other[6] | 09/11-05/36 | 5.10%-10.70% | 120,706 | 156,709 |
| Merchandise Mart: | | | | | |
| | Merchandise Mart | 12/16 | 5.57 % | 550,000 | 550,000 |
| | High Point Complex[7] | 09/16 | 10.36 % | 225,372 | 217,815 |
| | Boston Design Center | 09/15 | 5.02 % | 68,828 | 69,667 |
| | Washington Design Center | 11/11 | 6.95 % | 43,654 | 44,247 |
| Other: | | | | | |
| | 555 California Street | 09/11 | 5.79 % | 640,332 | 664,117 |
| | Industrial Warehouses | 10/11 | 6.95 % | 24,512 | 24,813 |
| Total fixed rate notes and mortgages payable | | | 5.96 % | $ 7,024,431 | $ 6,640,012 |

---

See notes on page 20.

**VORNADO REALTY TRUST**

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

**(UNAUDITED)**

**10. Debt - continued**

| (Amounts in thousands) | | | Interest Rate at | Balance at | |
|---|---|---|---|---|---|
| | | Spread over | September 30, | September 30, | December 31, |
| **Notes and mortgages payable:** | **Maturity (1)** | **LIBOR** | **2010** | **2010** | **2009** |
| **Variable rate:** | | | | | |
| New York Office: | | | | | |
| Manhattan Mall | 02/12 | L+55 | 0.81 % | $ 232,000 | $ 232,000 |
| 866 UN Plaza | 05/11 | L+40 | 0.84 % | 44,978 | 44,978 |
| Washington, DC Office: | | | | | |
| 2101 L Street | 02/13 | L+120 | 1.69 % | 150,000 | 150,000 |
| West End 25 (construction loan) | 02/11 | L+130 | 1.59 % | 95,220 | 85,735 |
| 1101 17th, 1140 Connecticut, 1730 M and 1150 17th Street(2) | 06/14 | L+140 | 1.66 % | 84,966 | - |
| 220 20th Street (construction loan) | 01/11 | | | | |