# 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: **June 30, 2013**

**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 June 30, 2013, 186,991,076 of the registrant's common shares of beneficial interest are outstanding.

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**PART I. FINANCIAL INFORMATION**
**Item 1. Financial Statements**

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

| (Amounts in thousands, except share and per share amounts) | June 30, 2013 | December 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| Real estate, at cost: | | |
| Land | $ 4,209,969 | $ 4,797,773 |
| Buildings and improvements | 12,302,151 | 12,476,372 |
| Development costs and construction in progress | 997,381 | 920,357 |
| Leasehold improvements and equipment | 127,491 | 130,077 |
| Total | 17,636,992 | 18,324,579 |
| Less accumulated depreciation and amortization | (3,246,837) | (3,084,700) |
| Real estate, net | 14,390,155 | 15,239,879 |
| Cash and cash equivalents | 781,655 | 960,319 |
| Restricted cash | 312,071 | 183,256 |
| Marketable securities | 402,935 | 398,188 |
| Tenant and other receivables, net of allowance for doubtful accounts of $25,963 and $37,674 | 140,938 | 195,718 |
| Investments in partially owned entities | 1,031,644 | 1,226,256 |
| Investment in Toys "R" Us | 417,764 | 478,041 |
| Real Estate Fund investments | 622,124 | 600,786 |
| Mortgage and mezzanine loans receivable | 175,699 | 225,359 |
| Receivable arising from the straight-lining of rents, net of allowance of $4,307 and $3,165 | 790,358 | 760,310 |
| Deferred leasing and financing costs, net of accumulated amortization of $251,202 and $224,453 | 412,695 | 407,500 |
| Identified intangible assets, net of accumulated amortization of $365,854 and $346,664 | 289,110 | 406,358 |
| Assets related to discontinued operations | 63,573 | 602,000 |
| Other assets | 502,510 | 381,079 |
| | $ 20,333,231 | $ 22,065,049 |
| **LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY** | | |
| Mortgages payable | $ 8,582,573 | $ 8,663,326 |
| Senior unsecured notes | 1,358,182 | 1,358,008 |
| Revolving credit facility debt | 83,982 | 1,170,000 |
| Accounts payable and accrued expenses | 393,362 | 484,746 |
| Deferred revenue | 486,901 | 596,067 |
| Deferred compensation plan | 111,093 | 105,200 |
| Deferred tax liabilities | 15,369 | 15,305 |
| Liabilities related to discontinued operations | 2,677 | 423,163 |
| Other liabilities | 436,877 | 400,938 |
| Total liabilities | 11,471,016 | 13,216,753 |
| Commitments and contingencies | | |
| Redeemable noncontrolling interests: | | |
| Class A units - 11,345,667 and 11,215,682 units outstanding | 939,988 | 898,152 |
| Series D cumulative redeemable preferred units - 1 and 1,800,001 units outstanding | 1,000 | 46,000 |
| Total redeemable noncontrolling interests | 940,988 | 944,152 |
| Vornado shareholders' equity: | | |
| Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,682,807 and 51,184,609 shares | 1,277,455 | 1,240,278 |
| Common shares of beneficial interest: $.04 par value per share; authorized 250,000,000 shares; issued and outstanding 186,991,076 and 186,734,711 shares | 7,450 | 7,440 |
| Additional capital | 7,190,336 | 7,195,438 |
| Earnings less than distributions | (1,471,643) | (1,573,275) |
| Accumulated other comprehensive income (loss) | 132,894 | (18,946) |
| Total Vornado shareholders' equity | 7,136,492 | 6,850,935 |
| Noncontrolling interests in consolidated subsidiaries | 784,735 | 1,053,209 |
| Total equity | 7,921,227 | 7,904,144 |
| | $ 20,333,231 | $ 22,065,049 |

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 June 30, 2013 | For the Three Months Ended June 30, 2012 | For the Six Months Ended June 30, 2013 | For the Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| **REVENUES:** | | | | |
| Property rentals | $ 545,194 | $ 517,233 | $ 1,079,050 | $ 1,026,726 |
| Tenant expense reimbursements | 75,659 | 71,409 | 152,415 | 141,906 |
| Cleveland Medical Mart development project | 16,990 | 56,304 | 29,133 | 111,363 |
| Fee and other income | 48,015 | 33,037 | 145,239 | 66,315 |
| Total revenues | 685,858 | 677,983 | 1,405,837 | 1,346,310 |
| **EXPENSES:** | | | | |
| Operating | 261,080 | 243,485 | 520,953 | 489,462 |
| Depreciation and amortization | 135,486 | 128,372 | 277,570 | 259,767 |
| General and administrative | 54,323 | 46,832 | 108,905 | 102,122 |
| Cleveland Medical Mart development project | 15,151 | 53,935 | 26,525 | 106,696 |
| Acquisition related costs | 3,350 | 2,559 | 3,951 | 3,244 |
| Total expenses | 469,390 | 475,183 | 937,904 | 961,291 |
| Operating income | 216,468 | 202,800 | 467,933 | 385,019 |
| (Loss) income applicable to Toys "R" Us | (36,861) | (19,190) | (35,102) | 97,281 |
| Income from partially owned entities | 1,472 | 12,563 | 22,238 | 32,223 |
| Income from Real Estate Fund | 34,470 | 20,301 | 51,034 | 32,063 |
| Interest and other investment income (loss), net | 26,416 | (49,172) | (22,658) | (33,507) |
| Interest and debt expense | (121,762) | (124,320) | (243,650) | (254,379) |
| Net gain (loss) on disposition of wholly owned and partially owned assets | 1,005 | 4,856 | (35,719) | 4,856 |
| Income before income taxes | 121,208 | 47,838 | 204,076 | 263,556 |
| Income tax expense | (2,877) | (7,479) | (3,950) | (14,304) |
| Income from continuing operations | 118,331 | 40,359 | 200,126 | 249,252 |
| Income from discontinued operations | 63,990 | 17,869 | 271,122 | 89,240 |
| Net income | 182,321 | 58,228 | 471,248 | 338,492 |
| Less net income attributable to noncontrolling interests in: | | | | |
| Consolidated subsidiaries | (14,930) | (14,721) | (26,216) | (24,318) |
| Operating Partnership | (8,849) | (1,337) | (22,782) | (16,608) |
| Preferred unit distributions of the Operating Partnership | (348) | (3,873) | (1,134) | (7,747) |
| Net income attributable to Vornado | 158,194 | 38,297 | 421,116 | 289,819 |
| Preferred share dividends | (20,368) | (17,787) | (42,070) | (35,574) |
| Preferred unit and share redemptions | 8,100 | - | (1,130) | - |
| **NET INCOME attributable to common shareholders** | $ 145,926 | $ 20,510 | $ 377,916 | $ 254,245 |
| **INCOME PER COMMON SHARE - BASIC:** | | | | |
| Income from continuing operations, net | $ 0.46 | $ 0.02 | $ 0.65 | $ 0.91 |
| Income from discontinued operations, net | 0.32 | 0.09 | 1.37 | 0.46 |
| Net income per common share | $ 0.78 | $ 0.11 | $ 2.02 | $ 1.37 |
| Weighted average shares outstanding | 186,931 | 185,673 | 186,842 | 185,521 |
| **INCOME PER COMMON SHARE - DILUTED:** | | | | |
| Income from continuing operations, net | $ 0.46 | $ 0.02 | $ 0.65 | $ 0.91 |
| Income from discontinued operations, net | 0.32 | 0.09 | 1.36 | 0.45 |
| Net income per common share | $ 0.78 | $ 0.11 | $ 2.01 | $ 1.36 |
| Weighted average shares outstanding | 187,720 | 186,342 | 187,627 | 186,271 |
| **DIVIDENDS PER COMMON SHARE** | $ 0.73 | $ 0.69 | $ 1.46 | $ 1.38 |

See notes to consolidated financial statements (unaudited).

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

| (Amounts in thousands) | For the Three Months Ended June 30, 2013 | For the Three Months Ended June 30, 2012 | For the Six Months Ended June 30, 2013 | For the Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Net income | $ 182,321 | $ 58,228 | $ 471,248 | $ 338,492 |
| Other comprehensive income (loss): | | | | |
| Change in unrealized net gain (loss) on available-for-sale securities | 20,348 | (233,218) | 169,138 | (220,525) |
| Pro rata share of other comprehensive loss of nonconsolidated subsidiaries | (19,707) | (4,310) | (23,354) | (26,254) |
| Change in value of interest rate swap | 12,037 | (8,388) | 14,560 | (6,002) |
| Other | (3) | 496 | 530 | 373 |
| Comprehensive income (loss) | 194,996 | (187,192) | 632,122 | 86,084 |
| Less comprehensive income attributable to noncontrolling interests | (24,862) | (4,470) | (59,166) | (32,779) |
| Comprehensive income (loss) attributable to Vornado | $ 170,134 | $ (191,662) | $ 572,956 | $ 53,305 |

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 (Loss) | Subsidiaries | Equity |
| **Balance, December 31, 2011** | 42,187 | $ 1,021,660 | 185,080 | $ 7,373 | $ 7,127,258 | $ (1,401,704) | $ 73,729 | $ 680,131 | $ 7,508,447 |
| Net income | - | - | - | - | - | 289,819 | - | 24,318 | 314,137 |
| Dividends on common shares | - | - | - | - | - | (256,119) | - | - | (256,119) |
| Dividends on preferred shares | - | - | - | - | - | (35,574) | - | - | (35,574) |
| Common shares issued: | | | | | | | | | |
| Upon redemption of Class A units, at redemption value | - | - | 303 | 12 | 24,964 | - | - | - | 24,976 |
| Under employees' share option plan | - | - | 412 | 16 | 8,800 | (16,389) | - | - | (7,573) |
| Under dividend reinvestment plan | - | - | 10 | 1 | 842 | - | - | - | 843 |
| Contributions: | | | | | | | | | |
| Real Estate Fund | - | - | - | - | - | - | - | 108,319 | 108,319 |
| Other | - | - | - | - | - | - | - | 30 | 30 |
| Distributions: | | | | | | | | | |
| Real Estate Fund | - | - | - | - | - | - | - | (44,910) | (44,910) |
| Conversion of Series A preferred shares to common shares | (2) | (105) | 3 | - | 105 | - | - | - | - |
| Deferred compensation shares and options | - | - | 7 | - | 8,484 | (339) | - | - | 8,145 |
| Change in unrealized net loss on available-for-sale securities | - | - | - | - | - | - | (220,525) | - | (220,525) |
| Pro rata share of other comprehensive loss of nonconsolidated subsidiaries | - | - | - | - | - | - | (26,254) | - | (26,254) |
| Change in value of interest rate swap | - | - | - | - | - | - | (6,002) | - | (6,002) |
| Adjustments to carry redeemable Class A units at redemption value | - | - | - | - | (110,581) | - | - | - | (110,581) |
| Redeemable noncontrolling interests' share of above adjustments | - | - | - | - | - | - | 15,894 | - | 15,894 |
| Other | - | - | - | - | - | 2 | 373 | (3) | 372 |
| **Balance, June 30, 2012** | 42,185 | $ 1,021,555 | 185,815 | $ 7,402 | $ 7,059,872 | $ (1,420,304) | $ (162,785) | $ 767,885 | $ 7,273,625 |

See notes to consolidated financial statements (unaudited).

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

| (Amounts in thousands) | Preferred Shares | | Common Shares | | Additional | Earnings Less Than | Accumulated Other Comprehensive | Non-controlling Interests in Consolidated | Total |
|---|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Capital | Distributions | Income (Loss) | Subsidiaries | Equity |
| **Balance, December 31, 2012** | 51,185 | $ 1,240,278 | 186,735 | $ 7,440 | $ 7,195,438 | $ (1,573,275) | $ (18,946) | $ 1,053,209 | $ 7,904,144 |
| Net income | - | - | - | - | - | 421,116 | - | 26,216 | 447,332 |
| Dividends on common shares | - | - | - | - | - | (272,825) | - | - | (272,825) |
| Dividends on preferred shares | - | - | - | - | - | (42,070) | - | - | (42,070) |
| Issuance of Series L preferred shares | 12,000 | 290,536 | - | - | - | - | - | - | 290,536 |
| Redemption of Series F and Series H preferred shares | (10,500) | (253,269) | - | - | - | - | - | - | (253,269) |
| Common shares issued: | | | | | | | | | |
| Upon redemption of Class A units, at redemption value | - | - | 180 | 7 | 14,973 | - | - | - | 14,980 |
| Under employees' share option plan | - | - | 62 | 3 | 3,564 | - | - | - | 3,567 |
| Under dividend reinvestment plan | - | - | 11 | - | 903 | - | - | - | 903 |
| Contributions: | | | | | | | | | |
| Real Estate Fund | - | - | - | - | - | - | - | 18,781 | 18,781 |
| Other | - | - | - | - | - | - | - | 15,186 | 15,186 |
| Distributions: | | | | | | | | | |
| Real Estate Fund | - | - | - | - | - | - | - | (43,145) | (43,145) |
| Other | - | - | - | - | - | - | - | (120,051) | (120,051) |
| Conversion of Series A preferred shares to common shares | (2) | (90) | 3 | - | 90 | - | - | - | - |
| Deferred compensation shares and options | - | - | - | - | 4,786 | (305) | - | - | 4,481 |
| Change in unrealized net gain on available-for-sale securities | - | - | - | - | - | - | 169,138 | - | 169,138 |
| Pro rata share of other comprehensive loss of nonconsolidated subsidiaries | - | - | - | - | - | - | (23,354) | - | (23,354) |
| Change in value of interest rate swap | - | - | - | - | - | - | 14,560 | - | 14,560 |
| Adjustments to carry redeemable Class A units at redemption value | - | - | - | - | (29,393) | - | - | - | (29,393) |
| Redeemable noncontrolling interests' share of above adjustments | - | - | - | - | - | - | (9,034) | - | (9,034) |
| Preferred share redemptions | - | - | - | - | - | (1,130) | - | - | (1,130) |
| Deconsolidation of partially owned entity | - | - | - | - | - | - | - | (165,427) | (165,427) |
| Other | - | - | - | - | (25) | (3,154) | 530 | (34) | (2,683) |
| **Balance, June 30, 2013** | 52,683 | $ 1,277,455 | 186,991 | $ 7,450 | $ 7,190,336 | $ (1,471,643) | $ 132,894 | $ 784,735 | $ 7,921,227 |

See notes to consolidated financial statements (unaudited).

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

| (Amounts in thousands) | For the Six Months Ended June 30, 2013 | 2012 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 471,248 | $ 338,492 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization (including amortization of deferred financing costs) | 289,643 | 285,617 |
| Net gains on sale of real estate | (267,994) | (72,713) |
| Return of capital from Real Estate Fund investments | 56,664 | - |
| Net unrealized gain on Real Estate Fund investments | (47,109) | (27,979) |
| Other non-cash adjustments | 42,339 | 20,993 |
| Non-cash impairment loss on J.C. Penney common shares | 39,487 | - |
| Net loss (gain) on disposition of wholly owned and partially owned assets | 35,719 | (4,856) |
| Straight-lining of rental income | (32,730) | (43,124) |
| Amortization of below-market leases, net | (28,511) | (26,457) |
| Distributions of income from partially owned entities | 23,774 | 34,613 |
| Loss from the mark-to-market of J.C. Penney derivative position | 13,475 | 57,687 |
| Equity in net loss (income) of partially owned entities, including Toys "R" Us | 12,864 | (129,504) |
| Impairment losses | 4,007 | 13,511 |
| Changes in operating assets and liabilities: | | |
| Real Estate Fund investments | (30,893) | (85,867) |
| Accounts receivable, net | 53,821 | (8,971) |
| Prepaid assets | (104,149) | (100,012) |
| Other assets | (35,570) | (18,582) |
| Accounts payable and accrued expenses | (50,690) | 25,940 |
| Other liabilities | (595) | 5,076 |
| Net cash provided by operating activities | 444,800 | 263,864 |
| | | |
| **Cash Flows from Investing Activities:** | | |
| Proceeds from sales of real estate and related investments | 648,167 | 370,037 |
| Distributions of capital from partially owned entities | 281,991 | 17,963 |
| Proceeds from the sale of LNR | 240,474 | - |
| Proceeds from sales of marketable securities | 160,715 | 58,460 |
| Additions to real estate | (113,060) | (83,368) |
| Funding of J.C. Penney derivative collateral | (98,447) | (70,000) |
| Development costs and construction in progress | (85,550) | (58,069) |
| Return of J.C. Penney derivative collateral | 85,450 | 24,950 |
| Investments in partially owned entities | (59,472) | (57,237) |
| Acquisitions of real estate and other | (53,992) | (32,156) |
| Proceeds from repayments of mortgage and mezzanine loans receivable and other | 47,950 | 1,994 |
| Restricted cash | 16,596 | (14,658) |
| Investment in mortgage and mezzanine loans receivable and other | (137) | (145) |
| Proceeds from the repayment of loan to officer | - | 13,123 |
| Net cash provided by investing activities | 1,070,685 | 170,894 |

See notes to consolidated financial statements (unaudited).

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

| (Amounts in thousands) | For the Six Months Ended June 30, 2013 | 2012 |
|---|---|---|
| **Cash Flows from Financing Activities:** | | |
| Repayments of borrowings | $ (2,800,441) | $ (1,507,220) |
| Proceeds from borrowings | 1,583,357 | 1,225,000 |
| Purchases of outstanding preferred units and shares | (299,400) | - |
| Proceeds from the issuance of preferred shares | 290,536 | - |
| Dividends paid on common shares | (272,825) | (256,119) |
| Distributions to noncontrolling interests | (181,510) | (69,367) |
| Dividends paid on preferred shares | (42,451) | (35,576) |
| Contributions from noncontrolling interests | 33,967 | 108,349 |
| Debt issuance and other costs | (9,520) | (14,648) |
| Proceeds received from exercise of employee share options | 4,470 | 9,667 |
| Repurchase of shares related to stock compensation agreements and/or related tax withholdings | (332) | (30,034) |
| Net cash used in financing activities | (1,694,149) | (569,948) |
| Net decrease in cash and cash equivalents | (178,664) | (135,190) |
| Cash and cash equivalents at beginning of period | 960,319 | 606,553 |
| Cash and cash equivalents at end of period | $ 781,655 | $ 471,363 |
| | | |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Cash payments for interest, excluding capitalized interest of $17,492 and $361 | $ 235,588 | $ 251,434 |
| Cash payments for income taxes | $ 4,732 | $ 6,494 |
| | | |
| **Non-Cash Investing and Financing Activities:** | | |
| Change in unrealized net gain (loss) on available-for-sale securities | $ 169,138 | $ (220,525) |
| Adjustments to carry redeemable Class A units at redemption value | (29,393) | (110,581) |
| Common shares issued upon redemption of Class A units, at redemption value | 14,980 | 24,976 |
| Decrease in assets and liabilities resulting from the deconsolidation of Independence Plaza: | | |
| Real estate, net | (852,166) | - |
| Notes and mortgages payable | (322,903) | - |
| Cash restricted for like kind exchange of real estate | (155,810) | - |
| L.A. Mart seller financing | - | 35,000 |
| Write-off of fully depreciated assets | (47,598) | (131,770) |

See notes to consolidated financial statements (unaudited).

## 1. Organization

Vornado Realty Trust ("Vornado") is a fully-integrated real estate investment trust ("REIT") and conducts its business through, and substantially all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the "Operating Partnership"). Vornado is the sole general partner of, and owned approximately 94.0% of the common limited partnership interest in the Operating Partnership at June 30, 2013. 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 intercompany amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (the "SEC") and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, for the year ended December 31, 2012, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to current year presentation.

## 3. Recently Issued Accounting Literature

In February 2013, the Financial Accounting Standards Board ("FASB") issued an update ("ASU 2013-02") to Accounting Standards Codification ("ASC") Topic 220, *Comprehensive Income* ("Topic 220"). ASU 2013-02 requires additional disclosures regarding significant reclassifications out of each component of accumulated other comprehensive income, including the effect on the respective line items of net income for amounts that are required to be reclassified into net income in their entirety and cross-references to other disclosures providing additional information for amounts that are not required to be reclassified into net income in their entirety. The adoption of this update as of January 1, 2013, did not have a material impact on our consolidated financial statements, but resulted in additional disclosures (see Note 13 - *Accumulated Other Comprehensive Income*).

In June 2013, the FASB issued an update ("ASU 2013-08") to ASC Topic 946, *Financial Services - Investment Companies* ("Topic 946"). ASU 2013-08 amends the guidance in Topic 946 for determining whether an entity qualifies as an investment company and requires certain additional disclosures. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. We are currently evaluating the impact, if any, of ASU 2013-08 on our real estate fund and our consolidated financial statements.

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

We are the general partner and investment manager of our $800,000,000 Fund, to which we committed $200,000,000. The Fund has an eight-year term and a three-year investment period which 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 the AICPA Investment Company Guide and its investments are reported on its balance sheet at fair value, with changes in value each period recognized in earnings. We consolidate the accounts of the Fund into our consolidated financial statements, retaining the fair value basis of accounting.

At June 30, 2013, the Fund had ten investments with an aggregate fair value of $622,124,000, or $114,751,000 in excess of cost, and had remaining unfunded commitments of $246,582,000, of which our share was $61,645,000. Below is a summary of income from the Fund for the three and six months ended June 30, 2013 and 2012.

| (Amounts in thousands) | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Net investment income (loss) | $ 877 | $ (834) | $ 3,925 | $ 4,084 |
| Net unrealized gains | 33,593 | 21,135 | 47,109 | 27,979 |
| Income from Real Estate Fund | 34,470 | 20,301 | 51,034 | 32,063 |
| Less (income) attributable to noncontrolling interests | (14,359) | (12,306) | (23,899) | (20,239) |
| Income from Real Estate Fund attributable to Vornado [(1)] | $ 20,111 | $ 7,995 | $ 27,135 | $ 11,824 |

**(1)** Excludes management, leasing and development fees of $827 and $717 for the three months ended June 30, 2013 and 2012, respectively, and $1,676 and $1,420 for the six months ended June 30, 2013 and 2012, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

## 5. Mortgage and Mezzanine Loans Receivable

As of June 30, 2013 and December 31, 2012, the carrying amount of mortgage and mezzanine loans receivable was $175,699,000 and $225,359,000, respectively. These loans have a weighted average interest rate of 10.8% and 10.3% at June 30, 2013 and December 31, 2012, respectively, and have maturities ranging from August 2014 to May 2016.

On March 27, 2013, we transferred, at par, a 25% participation in a mortgage loan on 701 Seventh Avenue to a third party for $59,375,000 in cash. We acquired this participation in October 2012, together with a 25% interest in a mezzanine loan on the property. The transfer did not qualify for sale accounting given our continuing interest in the mezzanine loan. Accordingly, we continue to include the 25% participation in the mortgage loan in "Mortgage and Mezzanine Loans Receivable" and have recorded a $59,375,000 liability in "Other Liabilities" on our consolidated balance sheet.

On April 17, 2013, a $50,091,000 mezzanine loan that was scheduled to mature in August 2015, was repaid. In connection therewith, we received net proceeds of $55,358,000, including prepayment penalties, which resulted in income of $5,267,000, included in "interest and other investment income (loss)" on our consolidated statement of income.

## 6. Marketable Securities and Derivative Instruments

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

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

On March 4, 2013, we sold 10,000,000 J.C. Penney common shares at a price of $16.03 per share, or $160,300,000 in the aggregate, resulting in a net loss of $36,800,000, which is included in "net gain (loss) on disposition of wholly owned and partially owned assets" on our consolidated statement of income. In addition, in the first quarter of 2013, we wrote down the remaining 8,584,010 J.C. Penney common shares we own to fair value and recorded a $39,487,000 impairment loss, which is included in "interest and other investment income (loss), net" on our consolidated statement of income.

As of June 30, 2013, we own an economic interest in 13,400,000 J.C. Penney common shares, or 6.1% of its outstanding common shares. Below are the details of our investment.

We own 8,584,010 common shares at a GAAP cost of $15.11, per share, or $129,704,000 in the aggregate. As of June 30, 2013, these shares have an aggregate fair value of $146,615,000, based on J.C. Penney's closing share price of $17.08 per share.

We also own an economic interest in 4,815,990 common shares through a forward contract at a weighted average strike price of $29.27 per share, or $140,947,000 in the aggregate. The forward contract may be settled, at our election, in cash or common shares, in whole or in part, at any time prior to October 8, 2022. The counterparty may accelerate settlement, in whole or in part, on October 8, 2014, or any anniversary thereof, or in the event we were to receive a credit downgrade. The forward contract strike price per share increases at an annual rate of LIBOR plus 95 basis points during the first two years of the contract and LIBOR plus 80 basis points thereafter. The contract is a derivative instrument that does not qualify for hedge accounting treatment. Gains and losses from the mark-to-market of the underlying common shares are recognized in "interest and other investment income (loss), net" on our consolidated statements of income. In the three and six months ended June 30, 2013, we recognized income of $9,065,000 and a loss of $13,475,000, respectively, from the mark-to-market of the underlying common shares, and as of June 30, 2013, have funded $69,377,000 in connection with this derivative position. In the three and six months ended June 30, 2012, we recognized losses of $58,732,000 and $57,687,000, respectively, from the mark-to-market of the underlying common shares.

As of June 30, 2013, the aggregate economic net loss on our investment in J.C. Penney, including shares sold, was $201,119,000.

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

From the inception of our investment in Lexington in 2008, until the first quarter of 2013, we accounted for that investment under the equity method because of our ability to exercise significant influence over Lexington's operating and financial policies. As a result of Lexington's common share issuances, our ownership interest has been reduced over time from approximately 17.2% to 8.8% at March 31, 2013. In the first quarter of 2013, we concluded that we no longer have the ability to exercise significant influence over Lexington's operating and financial policies, and began accounting for this investment as a marketable equity security – available for sale, in accordance with Accounting Standards Codification ("ASC") Topic 320, *Investments – Debt and Equity Securities*.

Below is a summary of our marketable securities portfolio as of June 30, 2013 and December 31, 2012.

| (Amounts in thousands) | As of June 30, 2013 | | | As of December 31, 2012 | | |
|---|---|---|---|---|---|---|
| | Fair Value | GAAP Cost | Unrealized Gain | Fair Value | GAAP Cost | Unrealized Gain |
| Equity securities: | | | | | | |
| Lexington | $ 215,718 | $ 72,549 | $ 143,169 | $ - | $ - | $ - |
| J.C. Penney | 146,615 | 129,704 | 16,911 | 366,291 | 366,291 | - |
| Other | 40,602 | 12,112 | 28,490 | 31,897 | 12,465 | 19,432 |
| | $ 402,935 | $ 214,365 | $ 188,570 | $ 398,188 | $ 378,756 | $ 19,432 |

## 7. Investments in Partially Owned Entities

*Toys “R” Us (“Toys”)*

As of June 30, 2013, we own 32.6% of Toys. We account for our investment in Toys under the equity method and record our share of Toys’ net income or loss on a one-quarter lag basis because Toys’ fiscal year ends on the Saturday nearest January 31, and our fiscal year ends on December 31. The business of Toys is highly seasonal. Historically, Toys’ fourth quarter net income accounts for more than 80% of its fiscal year net income.

In the fourth quarter of 2012, we recorded a $40,000,000 non-cash impairment loss on our investment in Toys and disclosed, that if current facts don’t change, our share of Toys’ undistributed income, which in accordance with the equity method of accounting, would increase the carrying amount of our investment above fair value, would require an offsetting impairment loss.

In the first quarter of 2013, we recognized our share of Toys’ fourth quarter net income of $78,542,000 and a corresponding non-cash impairment loss of the same amount.

As of June 30, 2013, the carrying amount of our investment in Toys is less than our share of Toys' equity by approximately $146,215,000. This basis difference resulted primarily from the non-cash impairment losses aggregating $118,542,000 that were recognized in 2012 and 2013. We have allocated the basis difference to Toys' intangible assets (primarily trade names and trademarks). The basis difference is not being amortized and will be recognized upon disposition of our investment.

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

| (Amounts in thousands) | Balance as of | |
|---|---|---|
| **Balance Sheet:** | **May 4, 2013** | **October 27, 2012** |
| Assets | $ 11,303,000 | $ 12,953,000 |
| Liabilities | 9,475,000 | 11,190,000 |
| Noncontrolling interests | 67,000 | 44,000 |
| Toys “R” Us, Inc. equity | 1,761,000 | 1,719,000 |

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| **Income Statement:** | **May 4, 2013** | **April 28, 2012** | **May 4, 2013** | **April 28, 2012** |
| Total revenues | $ 2,408,000 | $ 2,612,000 | $ 8,178,000 | $ 8,537,000 |
| Net (loss) income attributable to Toys | (119,000) | (66,000) | 122,000 | 283,000 |

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

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

As of June 30, 2013, we own 1,654,068 Alexander's common shares, or approximately 32.4% of Alexander's common equity. We manage, lease and develop Alexander's properties pursuant to agreements which expire in March of each year and are automatically renewable. As of June 30, 2013, Alexander's owed us $44,883,000 in fees under these agreements.

As of June 30, 2013, the market value ("fair value" pursuant to ASC 820) of our investment in Alexander's, based on Alexander's June 30, 2013 closing share price of $293.71, was $485,816,000, or $315,635,000 in excess of the carrying amount on our consolidated balance sheet. As of June 30, 2013, 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 $43,292,000. The majority of this basis difference resulted from the excess of our purchase price for the Alexander's common stock acquired over the book value of Alexander's net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of Alexander's assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in Alexander's net income. The basis difference related to the land will be recognized upon disposition of our investment.

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

| (Amounts in thousands) | Balance as of | |
|---|---|---|
| **Balance Sheet:** | **June 30, 2013** | **December 31, 2012** |
| Assets | $ 1,469,000 | $ 1,482,000 |
| Liabilities | 1,136,000 | 1,150,000 |
| Stockholders' equity | 333,000 | 332,000 |

| | For the Three Months Ended | | For the Six Months Ended | |
|---|---|---|---|---|
| **Income Statement:** | **June 30, 2013** | **June 30, 2012** | **June 30, 2013** | **June 30, 2012** |
| Total revenues | $ 47,000 | $ 47,000 | $ 96,000 | $ 94,000 |
| Net income attributable to Alexander's | 13,000 | 19,000 | 27,000 | 38,000 |

*LNR Property LLC ("LNR")*

In the first quarter of 2013, we recognized our 26.2% share of LNR's fourth quarter net income of $18,731,000, which increased the carrying amount of our investment to approximately $241,000,000. On April 22, 2013, LNR was sold for $1.053 billion, and we received net proceeds of $241,000,000 for our interest. Pursuant to the sale agreement, we ceased receiving income as of January 1, 2013.

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

*Independence Plaza*

On December 21, 2012, we acquired a 58.75% economic interest in Independence Plaza, a three-building 1,328 unit residential complex in the Tribeca submarket of Manhattan (the "Property"). We determined, at that time, that we were the primary beneficiary of the variable interest entity ("VIE") that owned the Property. Accordingly, we consolidated the operations of the Property from the date of acquisition. Upon consolidation, our preliminary purchase price allocation was primarily to land ($309,848,000) and building ($527,578,000). Based on a third party appraisal and additional information about facts and circumstances that existed at the acquisition date, which was obtained subsequent to the date of acquisition, we finalized the purchase price allocation in the first quarter of 2013, and retroactively adjusted our December 31, 2012 consolidated balance sheet as follows:

| (Amounts in thousands) | | |
|---|---|---|
| Land | $ | 602,662 |
| Building and improvements | | 252,844 |
| Acquired above-market leases (included in identified intangible assets) | | 13,115 |
| Acquired in-place leases (included in identified intangible assets) | | 67,879 |
| Other assets | | 7,374 |
| Acquired below-market leases (included in deferred revenue) | | (99,074) |
| Purchase price | $ | 844,800 |

On June 7, 2013, the existing $323,000,000 mortgage loan was refinanced with a $550,000,000 five-year, fixed-rate interest only mortgage loan bearing interest at 3.48%. The net proceeds of $219,000,000, after repaying the existing loan and closing costs, were distributed to the partners, of which our share was $137,000,000. Simultaneously with the refinancing, we sold an 8.65% economic interest in the Property to our partner for $41,000,000 in cash, which reduced our economic interest to 50.1%. As a result of this transaction, we determined that we are no longer the primary beneficiary of the VIE. Accordingly, we deconsolidated the operations of the Property on June 7, 2013 and began accounting for our investment under the equity method.

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

Below is a schedule of our investments in partially owned entities as of June 30, 2013 and December 31, 2012.

| (Amounts in thousands)<br>**Investments:** | **Percentage Ownership at June 30, 2013** | **Balance as of** | |
|---|---|---|---|
| | | **June 30, 2013** | **December 31, 2012** |
| Toys | 32.6 % | $ 417,764 | $ 478,041 |
| Alexander's | 32.4 % | $ 170,181 | $ 171,013 |
| Lexington[(1)] | n/a | - | 75,542 |
| LNR[(2)] | n/a | - | 224,724 |
| India real estate ventures | 4.0%-36.5% | 90,717 | 95,516 |
| Partially owned office buildings: | | | |
| 280 Park Avenue | 49.5 % | 207,956 | 197,516 |
| Rosslyn Plaza | 43.7%-50.4% | 60,345 | 62,627 |
| West 57th Street properties | 50.0 % | 56,696 | 57,033 |
| One Park Avenue | 30.3 % | 54,367 | 50,509 |
| 666 Fifth Avenue Office Condominium | 49.5 % | 38,664 | 35,527 |
| 330 Madison Avenue | 25.0 % | 32,766 | 30,277 |
| Warner Building | 55.0 % | 11,754 | 8,775 |
| Fairfax Square | 20.0 % | 5,242 | 5,368 |
| Other partially owned office buildings | Various | 9,508 | 9,315 |
| Other investments: | | | |
| Independence Plaza (includes $26,679 attributable to non-controlling interests)[(3)] | 50.1 % | 166,569 | - |
| Monmouth Mall | 50.0 % | 7,248 | 7,205 |
| Downtown Crossing, Boston[(4)] | n/a | - | 48,122 |
| Other investments[(5)] | Various | 119,631 | 147,187 |
| | | $ 1,031,644 | $ 1,226,256 |

(1) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale (see page 12 for details).

(2) On April 22, 2013, LNR was sold (see page 14 for details).

(3) On June 7, 2013, we sold an 8.65% economic interest in the property (see page 15 for details).

(4) On April 24, 2013, the joint venture sold the site in Downtown Crossing, Boston (see note 3 on page 17 for details).

(5) Includes interests in 85 10th Avenue, Fashion Centre Mall, 50-70 West 93rd Street and others.

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

Below is a schedule of income recognized from investments in partially owned entities for the three and six months ended June 30, 2013 and 2012.

| (Amounts in thousands) | Percentage Ownership | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|---|
| **Our Share of Net Income (Loss):** | **June 30, 2013** | **2013** | **2012** | **2013** | **2012** |
| Toys: | 32.6 % | | | | |
| Equity in net (loss) income before income taxes | | $ (64,372) | $ (35,664) | $ 73,516 | $ 121,723 |
| Income tax benefit (expense) | | 25,664 | 14,103 | (33,682) | (29,100) |
| Equity in net (loss) income | | (38,708) | (21,561) | 39,834 | 92,623 |
| Non-cash impairment loss (see page 13 for details) | | - | - | (78,542) | - |
| Management fees | | 1,847 | 2,371 | 3,606 | 4,658 |
| | | $ (36,861) | $ (19,190) | $ (35,102) | $ 97,281 |
| Alexander’s: | 32.4 % | | | | |
| Equity in net income | | $ 4,077 | $ 5,941 | $ 8,486 | $ 12,073 |
| Management, leasing and development fees | | 1,674 | 1,907 | 3,341 | 3,796 |
| | | 5,751 | 7,848 | 11,827 | 15,869 |
| Lexington[(1)] | n/a | - | (236) | (979) | 694 |
| LNR[(2)] | n/a | - | 9,469 | 18,731 | 22,719 |
| India real estate ventures | 4.0%-36.5% | (414) | (3,815) | (1,181) | (4,608) |
| Partially owned office buildings: | | | | | |
| 280 Park Avenue | 49.5 % | (2,021) | (1,955) | (4,590) | (7,550) |
| Warner Building | 55.0 % | (1,996) | (1,589) | (4,342) | (4,599) |
| 666 Fifth Avenue Office Condominium | 49.5 % | 1,899 | 1,785 | 3,918 | 3,500 |
| 330 Madison Avenue | 25.0 % | 1,185 | 18 | 2,489 | 812 |
| Rosslyn Plaza | 43.7%-50.4% | (1,005) | 145 | (1,451) | 303 |
| 1101 17th Street | 55.0 % | 236 | 646 | 620 | 1,329 |
| West 57th Street properties | 50.0 % | 196 | 252 | 368 | 565 |
| One Park Avenue | 30.3 % | (83) | 303 | 374 | 634 |
| Fairfax Square | 20.0 % | (18) | (40) | (63) | (52) |
| Other partially owned office buildings | Various | 565 | 555 | 1,053 | 1,082 |
| | | (1,042) | 120 | (1,624) | (3,976) |
| Other investments: | | | | | |
| Independence Plaza (see page 15 for details) | 50.1 % | (1,118) | 1,733 | (1,118) | 3,415 |
| Monmouth Mall | 50.0 % | 426 | 298 | 1,285 | 660 |
| Downtown Crossing, Boston[(3)] | n/a | 16 | (500) | (2,358) | (834) |
| Other investments[(4)] | Various | (2,147) | (2,354) | (2,345) | (1,716) |
| | | (2,823) | (823) | (4,536) | 1,525 |
| | | $ 1,472 | $ 12,563 | $ 22,238 | $ 32,223 |

(1) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale (see page 12 for details).

(2) On April 22, 2013, LNR was sold (see page 14 for details).

(3) On April 24, 2013, the joint venture sold the site in Downtown Crossing, Boston, and we received approximately $45,000 for our 50% interest. In connection therewith, we recognized a $2,335 impairment loss in the first quarter.

(4) Includes interests in 85 10th Avenue, Fashion Centre Mall, 50-70 West 93rd Street and others.

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

Below is a summary of the debt of our partially owned entities as of June 30, 2013 and December 31, 2012, none of which is recourse to us.

| (Amounts in thousands) | Percentage Ownership at June 30, 2013 | Maturity | Interest Rate at June 30, 2013 | 100% of Partially Owned Entities' Debt at June 30, 2013 | 100% of Partially Owned Entities' Debt at December 31, 2012 |
|---|---|---|---|---|---|
| Toys: | 32.6 % | | | | |
| Notes, loans and mortgages payable | | 2014-2021 | 7.83 % | $ 5,158,005 | $ 5,683,733 |
| Alexander's: | 32.4 % | | | | |
| Mortgages payable | | 2014-2018 | 3.85 % | $ 1,058,028 | $ 1,065,916 |
| Lexington[1]: | n/a | | | | |
| Mortgages payable | | n/a | n/a | $ - | $ 1,994,179 |
| LNR[2]: | n/a | | | | |
| Mortgages payable | | n/a | n/a | $ - | $ 309,787 |
| Liabilities of consolidated CMBS and CDO trusts | | n/a | n/a | - | 97,211,734 |
| | | | | $ - | $ 97,521,521 |
| Partially owned office buildings: | | | | | |
| 666 Fifth Avenue Office Condominium mortgage payable | 49.5 % | 02/19 | 6.76 % | $ 1,139,585 | $ 1,109,700 |
| 280 Park Avenue mortgage payable | 49.5 % | 06/16 | 6.64 % | 738,462 | 738,228 |
| Warner Building mortgage payable | 55.0 % | 05/16 | 6.26 % | 292,700 | 292,700 |
| One Park Avenue mortgage payable | 30.3 % | 03/16 | 5.00 % | 250,000 | 250,000 |
| 330 Madison Avenue mortgage payable | 25.0 % | 06/15 | 1.69 % | 150,000 | 150,000 |
| Fairfax Square mortgage payable | 20.0 % | 12/14 | 7.00 % | 69,681 | 70,127 |
| 1101 17th Street mortgage payable | 55.0 % | 01/15 | 1.44 % | 31,000 | 31,000 |
| Rosslyn Plaza | 43.7%-50.4% | 03/18 | 2.69 % | 20,984 | - |
| West 57th Street properties mortgages payable | 50.0 % | 02/14 | 4.94 % | 19,899 | 20,434 |
| Other | Various | Various | 6.37 % | 69,424 | 69,704 |
| | | | | $ 2,781,735 | $ 2,731,893 |
| India Real Estate Ventures: | | | | | |
| TCG Urban Infrastructure Holdings mortgages payable | 25.0 % | 2013-2022 | 13.62 % | $ 222,016 | $ 236,579 |
| Other: | | | | | |
| Independence Plaza (see page 15 for details) | 50.1 % | 06/18 | 3.48 % | 550,000 | - |
| Monmouth Mall mortgage payable | 50.0 % | 09/15 | 5.44 % | 158,882 | 159,896 |
| Other[3] | Various | Various | 5.00 % | 970,518 | 990,647 |
| | | | | $ 1,679,400 | $ 1,150,543 |

(1) In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale (see page 12 for details).

(2) On April 22, 2013, LNR was sold (see page 14 for details).

(3) Includes interests in Fashion Centre Mall, 50-70 West 93rd Street and others.

Based on our ownership interest in the partially owned entities above, our pro rata share of the debt of these partially owned entities was $3,831,483,000 and $29,443,128,000 at June 30, 2013 and December 31, 2012, respectively. Excluding our pro rata share of LNR's liabilities related to consolidated CMBS and CDO trusts, which were non-recourse to LNR and its equity holders, including us, our pro rata share of partially owned entities debt was $3,998,929,000 at December 31, 2012.

## 8. Discontinued Operations

**2013 Activity:**

On January 24, 2013, we completed the sale of the Green Acres Mall located in Valley Stream, New York, for $500,000,000. The sale resulted in net proceeds of $185,000,000, after repaying the existing loan and closing costs, and a net gain of $202,275,000.

On April 15, 2013, we sold The Plant, a power strip shopping center in San Jose, California, for $203,000,000. The sale resulted in net proceeds of $98,000,000, after repaying the existing loan and closing costs, and a net gain of $32,169,000.

On April 15, 2013, we sold a retail property in Philadelphia, which is a part of the Gallery at Market Street, for $60,000,000. The sale resulted in net proceeds of $58,000,000, and a net gain of $33,058,000.

During 2013, we sold an additional 10 properties, including nine non-core retail properties, in separate transactions, for an aggregate of $40,200,000, in cash, which resulted in a net gain aggregating $492,000.

**2012 Activity:**

On January 6, 2012, we completed the sale of 350 West Mart Center, a 1.2 million square foot office building in Chicago, Illinois, for $228,000,000, in cash, which resulted in a net gain of $54,911,000.

During 2012, we sold 11 non-core retail properties in separate transactions, for an aggregate of $136,000,000, in cash, which resulted in a net gain aggregating $17,802,000.

We have reclassified the revenues and expenses of all of the properties discussed above, as well as certain other retail properties that are currently held for sale to “income from discontinued operations” and the related assets and liabilities to “assets related to discontinued operations” and “liabilities related to discontinued operations” for all of the periods presented in the accompanying financial statements. The tables below set forth the assets and liabilities related to discontinued operations at June 30, 2013 and December 31, 2012 and their combined results of operations for the three and six months ended June 30, 2013 and 2012.

| (Amounts in thousands) | Assets Related to Discontinued Operations as of | | Liabilities Related to Discontinued Operations as of | |
|---|---|---|---|---|
| | June 30, 2013 | December 31, 2012 | June 30, 2013 | December 31, 2012 |
| Retail properties | $ 56,348 | $ 568,501 | $ 2,677 | $ 423,163 |
| Other properties | 7,225 | 33,499 | - | - |
| Total | $ 63,573 | $ 602,000 | $ 2,677 | $ 423,163 |

| (Amounts in thousands) | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Total revenues | $ 4,668 | $ 45,286 | $ 29,391 | $ 106,134 |
| Total expenses | 3,850 | 30,802 | 22,256 | 76,096 |
| | 818 | 14,484 | 7,135 | 30,038 |
| Net gains on sale of: | | | | |
| 901 Market Street, Philadelphia | 33,058 | - | 33,058 | - |
| The Plant | 32,169 | - | 32,169 | - |
| Green Acres Mall | - | - | 202,275 | - |
| 350 West Mart Center | - | - | - | 54,911 |
| Other real estate | 438 | 16,896 | 492 | 17,802 |
| Impairment losses | (2,493) | (13,511) | (4,007) | (13,511) |
| Income from discontinued operations | $ 63,990 | $ 17,869 | $ 271,122 | $ 89,240 |

## 9. Identified Intangible Assets and Liabilities

The following summarizes our identified intangible assets (primarily acquired in-place and above-market leases) and liabilities (primarily acquired below-market leases) as of June 30, 2013 and December 31, 2012.

| | Balance as of | |
|---|---|---|
| (Amounts in thousands) | June 30, 2013 | December 31, 2012 |
| **Identified intangible assets:** | | |
| Gross amount | $ 654,964 | $ 753,022 |
| Accumulated amortization | (365,854) | (346,664) |
| Net | $ 289,110 | $ 406,358 |
| **Identified intangible liabilities (included in deferred revenue):** | | |
| Gross amount | $ 816,671 | $ 902,525 |
| Accumulated amortization | (363,687) | (341,536) |
| Net | $ 452,984 | $ 560,989 |

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of $11,672,000 and $12,570,000 for the three months ended June 30, 2013 and 2012, respectively, and $28,506,000 and $26,313,000 for the six months ended June 30, 2013 and 2012, 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, 2014 is as follows:

| (Amounts in thousands) | |
|---|---|
| 2014 | $ 41,069 |
| 2015 | 38,263 |
| 2016 | 36,321 |
| 2017 | 30,936 |
| 2018 | 29,171 |

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was $16,992,000 and $12,807,000 for the three months ended June 30, 2013 and 2012, respectively, and $42,086,000 and $24,024,000 for the six months ended June 30, 2013 and 2012, 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, 2014 is as follows:

| (Amounts in thousands) | |
|---|---|
| 2014 | $ 27,533 |
| 2015 | 22,369 |
| 2016 | 19,189 |
| 2017 | 16,029 |
| 2018 | 11,830 |

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 $1,622,000 and $312,000 for the three months ended June 30, 2013 and 2012, respectively, and $2,723,000 and $582,000 for the six months ended June 30, 2013 and 2012, respectively. Estimated annual amortization of these below-market leases, net of above-market leases for each of the five succeeding years commencing January 1, 2014 is as follows:

| (Amounts in thousands) | |
|---|---|
| 2014 | $ 3,921 |
| 2015 | 3,921 |
| 2016 | 3,921 |
| 2017 | 3,921 |
| 2018 | 3,921 |

## 10. Debt

The following is a summary of our debt:

| (Amounts in thousands) | | Interest Rate at | Balance at | |
|---|---|---|---|---|
| **Mortgages payable:** | **Maturity (1)** | **June 30, 2013** | **June 30, 2013** | **December 31, 2012** |
| **Fixed rate:** | | | | |
| New York: | | | | |
| 1290 Avenue of the Americas (70% owned) | 11/22 | 3.34 % | $ 950,000 | $ 950,000 |
| Two Penn Plaza | 03/18 | 5.13 % | 425,000 | 425,000 |
| 666 Fifth Avenue Retail Condominium(2) | 03/23 | 3.61 % | 390,000 | - |
| 770 Broadway | 03/16 | 5.65 % | 353,000 | 353,000 |
| 888 Seventh Avenue | 01/16 | 5.71 % | 318,554 | 318,554 |
| 350 Park Avenue | 01/17 | 3.75 % | 300,000 | 300,000 |
| 909 Third Avenue | 04/15 | 5.64 % | 197,069 | 199,198 |
| 828-850 Madison Avenue Retail Condominium | 06/18 | 5.29 % | 80,000 | 80,000 |
| 510 Fifth Avenue | 01/16 | 5.60 % | 30,998 | 31,253 |
| Washington, DC: | | | | |
| Skyline Properties(3) | 02/17 | 5.74 % | 725,559 | 704,957 |
| River House Apartments | 04/15 | 5.43 % | 195,546 | 195,546 |
| 2101 L Street | 08/24 | 3.97 % | 150,000 | 150,000 |
| 2121 Crystal Drive | 03/23 | 5.51 % | 149,506 | 150,000 |
| 1215 Clark Street, 200 12th Street and 251 18th Street | 01/25 | 7.09 % | 104,522 | 105,724 |
| Bowen Building | 06/16 | 6.14 % | 115,022 | 115,022 |
| West End 25 | 06/21 | 4.88 % | 101,671 | 101,671 |
| Universal Buildings | 04/14 | 6.54 % | 90,633 | 93,226 |
| 2011 Crystal Drive | 08/17 | 7.30 % | 79,129 | 79,624 |
| 220 20th Street | 02/18 | 4.61 % | 73,312 | 73,939 |
| 1550 and 1750 Crystal Drive | 11/14 | 7.08 % | 72,592 | 74,053 |
| 2231 Crystal Drive | n/a | n/a | - | 41,298 |
| 1225 Clark Street | n/a | n/a | - | 24,834 |
| Retail Properties: | | | | |
| Cross-collateralized mortgages on 40 strip shopping centers | 09/20 | 4.25 % | 566,886 | 573,180 |
| Bergen Town Center(4) | 04/23 | 3.56 % | 300,000 | - |
| Montehiedra Town Center(5) | 07/16 | 6.04 % | 120,000 | 120,000 |
| North Bergen (Tonnelle Avenue) | 01/18 | 4.59 % | 75,000 | 75,000 |
| Las Catalinas Mall | 11/13 | 6.97 % | 53,308 | 54,101 |
| Broadway Mall | n/a | n/a | - | 85,180 |
| Other | 06/14-05/36 | 5.12%-7.30% | 85,789 | 86,641 |
| Other: | | | | |
| 555 California Street (70% owned) | 09/21 | 5.10 % | 600,000 | 600,000 |
| Merchandise Mart | 12/16 | 5.57 % | 550,000 | 550,000 |
| Borgata Land | 02/21 | 5.14 % | 59,717 | 60,000 |
| Total fixed rate mortgages payable | | 4.91 % | $ 7,312,813 | $ 6,771,001 |

See notes on page 23.

## 10. Debt - continued

| (Amounts in thousands) | | | Interest Rate at | Balance at | |
|---|---|---|---|---|---|
| **Mortgages payable:** | **Maturity (1)** | **Spread over LIBOR** | **June 30, 2013** | **June 30, 2013** | **December 31, 2012** |
| **Variable rate:** | | | | | |
| New York: | | | | | |
| Eleven Penn Plaza | 01/19 | L+235 | 2.54 % | $ 330,000 | $ 330,000 |
| 100 West 33rd Street - office and retail | 03/17 | L+250 | 2.69 % | 325,000 | 325,000 |
| 4 Union Square South - retail | 11/19 | L+215 | 2.34 % | 120,000 | 120,000 |
| 435 Seventh Avenue - retail | 08/19 | L+225 | 2.44 % | 98,000 | 98,000 |
| 866 UN Plaza | 05/16 | L+125 | 1.44 % | 44,978 | 44,978 |
| Independence Plaza | n/a | n/a | n/a | - | 334,225 |
| Washington, DC: | | | | | |
| River House Apartments | 04/18 | n/a (6) | 1.55 % | 64,000 | 64,000 |
| 2200 / 2300 Clarendon Boulevard | 01/15 | L+75 | 0.94 % | 44,325 | 47,353 |
| 1730 M and 1150 17th Street | 06/14 | L+140 | 1.59 % | 43,581 | 43,581 |
| Retail: | | | | | |
| Cross-collateralized mortgages on 40 strip shopping centers (7) | 09/20 | L+136 (7) | 2.36 % | 60,000 | 60,000 |
| Bergen Town Center (4) | n/a | n/a | n/a | - | 282,312 |
| Other | 05/15 | L+325 | 3.45 % | 16,126 | 19,126 |
| Other: | | | | | |
| 220 Central Park South | 10/13 | L+275 | 2.94 % | 123,750 | 123,750 |
| Total variable rate mortgages payable | | | 2.42 % | 1,269,760 | 1,892,325 |
| Total mortgages payable | | | 4.55 % | $ 8,582,573 | $ 8,663,326 |
| **Senior unsecured notes:** | | | | | |
| Senior unsecured notes due 2015 | 04/15 | | 4.25 % | $ 499,710 | $ 499,627 |
| Senior unsecured notes due 2039 (8) | 10/39 | | 7.88 % | 460,000 | 460,000 |
| Senior unsecured notes due 2022 | 01/22 | | 5.00 % | 398,472 | 398,381 |
| Total senior unsecured notes | | | 5.70 % | $ 1,358,182 | $ 1,358,008 |
| **Unsecured revolving credit facilities:** | | | | | |
| $1.25 billion unsecured revolving credit facility | 11/16 | L+125 | - | $ - | $ 1,150,000 |
| $1.25 billion unsecured revolving credit facility ($22,053 reserved for outstanding letters of credit) (9) | 06/18 | L+115 | 1.32 % | 83,982 | 20,000 |
| Total unsecured revolving credit facilities | | | 1.32 % | $ 83,982 | $ 1,170,000 |

See notes on the following page.

**10. Debt - continued**

Notes to preceding tabular information (amounts in thousands):

**(1)** Represents the extended maturity for certain loans in which we have the unilateral right, ability and intent to extend.

**(2)** On February 20, 2013, we completed a $390,000 financing of this property. The 10-year fixed-rate interest only loan bears interest at 3.61%. This property was previously unencumbered.

**(3)** In 2012, due to the rising vacancy rate at the Skyline properties (45.2% at June 30, 2013), primarily from the effects of the Base Realignment and Closure statute; insufficient cash flows to pay current obligations, including interest payments to the lender; and the significant amount of capital required to re-tenant these properties, we requested that the mortgage loan be transferred to the special servicer. In connection therewith, we entered into a forbearance agreement with the special servicer, that provides for interest shortfalls to be deferred and added to the principal balance of the loan and not give rise to a loan default. The forbearance agreement has been amended and extended a number of times, the latest of which extends its maturity through September 1, 2013. As of June 30, 2013, the accrued deferred interest amounted to $47,559. We continue to negotiate with the special servicer to restructure the terms of the loan.

**(4)** On March 25, 2013, we completed a $300,000 financing of this property. The 10-year fixed-rate interest only loan bears interest at 3.56%. The property was previously encumbered by a $282,000 floating-rate loan.

**(5)** On May 13, 2013, we notified the lender that due to tenants vacating, the property's operating cash flow will be insufficient to pay the debt service; accordingly, at our request, the mortgage loan was transferred to the special servicer. We are in discussions with the special servicer to restructure the terms of the loan; there can be no assurance as to the timing and ultimate resolution of these discussions.

**(6)** Interest at the Freddie Mac Reference Note Rate plus 1.53%.

**(7)** LIBOR floor of 1.00%.

**(8)** May be redeemed at our option in whole or in part beginning on October 1, 2014, at a price equal to the principal amount plus accrued interest.

**(9)** On March 28, 2013, we extended this revolving credit facility from June 2015 to June 2017, with two six-month extension options. The interest on the extended facility was reduced from LIBOR plus 135 basis points to LIBOR plus 115 basis points. In addition, the facility fee was reduced from 30 basis points to 20 basis points.

## 11. Redeemable Noncontrolling Interests

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

| (Amounts in thousands) | | |
|---|---|---|
| Balance at December 31, 2011 | $ | 1,160,677 |
| Net income | | 24,355 |
| Distributions | | (24,457) |
| Redemption of Class A units for common shares, at redemption value | | (24,976) |
| Adjustments to carry redeemable Class A units at redemption value | | 110,581 |
| Other, net | | (9,355) |
| Balance at June 30, 2012 | $ | 1,236,825 |
| | | |
| Balance at December 31, 2012 | $ | 944,152 |
| Net income | | 23,916 |
| Distributions | | (17,541) |
| Redemption of Class A units for common shares, at redemption value | | (14,980) |
| Adjustments to carry redeemable Class A units at redemption value | | 29,393 |
| Redemption of Series D-15 redeemable units | | (36,900) |
| Other, net | | 12,948 |
| Balance at June 30, 2013 | $ | 940,988 |

As of June 30, 2013 and December 31, 2012, the aggregate redemption value of redeemable Class A units was $939,988,000 and $898,152,000, respectively.

Redeemable noncontrolling interests exclude our Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units, as they are accounted for as liabilities in accordance with ASC 480, *Distinguishing Liabilities and Equity*, because of their possible settlement by issuing a variable number of Vornado common shares. Accordingly, the fair value of these units is included as a component of "other liabilities" on our consolidated balance sheets and aggregated $55,073,000 and $55,011,000 as of June 30, 2013 and December 31, 2012, respectively.

On May 9, 2013, we redeemed all of the outstanding 6.875% Series D-15 Cumulative Redeemable Preferred Units with an aggregate face amount of $45,000,000 for $36,900,000 in cash, plus accrued and unpaid distributions through the date of redemption.

## 12. Shareholders' Equity

On January 25, 2013, we sold 12,000,000 5.40% Series L Cumulative Redeemable Preferred Shares at a price of $25.00 per share in an underwritten public offering pursuant to an effective registration statement. We retained aggregate net proceeds of $290,536,000, after underwriters' discounts and issuance costs, and contributed the net proceeds to the Operating Partnership in exchange for 12,000,000 Series L Preferred Units (with economic terms that mirror those of the Series L Preferred Shares). Dividends on the Series L Preferred Shares are cumulative and payable quarterly in arrears. The Series L Preferred Shares are not convertible into, or exchangeable for, any of our properties or securities. On or after five years from the date of issuance (or sooner under limited circumstances), we may redeem the Series L Preferred Shares at a redemption price of $25.00 per share, plus accrued and unpaid dividends through the date of redemption. The Series L Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

On February 19, 2013, we redeemed all of the outstanding 6.75% Series F Cumulative Redeemable Preferred Shares and 6.75% Series H Cumulative Redeemable Preferred Shares at par, for an aggregate of $262,500,000 in cash, plus accrued and unpaid dividends through the date of redemption.

## 13. Accumulated Other Comprehensive Income

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

| | For the Three Months Ended June 30, 2013 | | | | |
|---|---|---|---|---|---|
| (Amounts in thousands) | Total | Securities available-for-sale | Pro rata share of nonconsolidated subsidiaries' OCI | Interest rate swap | Other |
| Balance as of March 31, 2013 | $ 120,953 | $ 168,221 | $ 7,666 | $ (47,542) | $ (7,392) |
| Other comprehensive income (loss)[1] | 11,941 | 20,349 | (19,707) | 12,037 | (738) |
| Balance as of June 30, 2013 | $ 132,894 | $ 188,570 | $ (12,041) | $ (35,505) | $ (8,130) |

(1) In the three months ended June 30, 2013, there were no amounts reclassified from accumulated other comprehensive income.

| | For the Six Months Ended June 30, 2013 | | | | |
|---|---|---|---|---|---|
| (Amounts in thousands) | Total | Securities available-for-sale | Pro rata share of nonconsolidated subsidiaries' OCI | Interest rate swap | Other |
| Balance as of December 31, 2012 | $ (18,946) | $ 19,432 | $ 11,313 | $ (50,065) | $ 374 |
| Other comprehensive income (loss)[1] | 151,840 | 169,138 | (23,354) | 14,560 | (8,504) |
| Balance as of June 30, 2013 | $ 132,894 | $ 188,570 | $ (12,041) | $ (35,505) | $ (8,130) |

(1) In the six months ended June 30, 2013, there were no amounts reclassified from accumulated other comprehensive income.

## 14. Variable Interest Entities ("VIEs")

*Consolidated VIEs*

The entity that owns Independence Plaza was a consolidated VIE at December 31, 2012. On June 7, 2013, we sold a portion of our economic interest in this entity and determined that we are no longer its primary beneficiary. Accordingly, we deconsolidated this VIE (see Note 7 – *Investments in Partially Owned Entities*). The table below summarizes the assets and liabilities of the VIE at December 31, 2012. The liabilities were secured only by the assets of the VIE, and were non-recourse to us.

| (Amounts in thousands) | As of June 30, 2013 | As of December 31, 2012 |
|---|---|---|
| Total assets | $ - | $ 957,730 |
| Total liabilities | $ - | $ 443,894 |
| Noncontrolling interest | $ - | $ 193,933 |

*Unconsolidated VIEs*

At June 30, 2013, we have unconsolidated VIEs comprised of our investments in the entities that own the Warner Building and Independence Plaza. We do not consolidate these entities because we are not the primary beneficiary and the nature of our involvement in the activities of these entities does not give us power over decisions that significantly affect these entities' economic performance. We account for our investment in these entities under the equity method (see Note 7 – *Investments in Partially Owned Entities*). As of June 30, 2013, the net carrying amount of our investment in these entities was $151,644,000, and at December 31, 2012, the carrying amount of our investment in the Warner Building was $8,775,000. Our maximum exposure to loss in these entities, is limited to our investment.

## 15. Fair Value Measurements

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

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

Financial assets and liabilities that are measured at fair value in our consolidated financial statements consist of (i) marketable securities, (ii) Real Estate Fund investments, (iii) the assets in our deferred compensation plan (for which there is a corresponding liability on our consolidated balance sheet), (iv) derivative positions in marketable equity securities, (v) interest rate swaps and (vi) mandatorily redeemable instruments (Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units). The tables below aggregate the fair values of these financial assets and liabilities by their levels in the fair value hierarchy at June 30, 2013 and December 31, 2012, respectively.

| | As of June 30, 2013 | | | |
|---|---|---|---|---|
| (Amounts in thousands) | Total | Level 1 | Level 2 | Level 3 |
| Marketable securities | $ 402,935 | $ 402,935 | $ - | $ - |
| Real Estate Fund investments (75% of which is attributable to noncontrolling interests) | 622,124 | - | - | 622,124 |
| Deferred compensation plan assets (included in other assets) | 111,093 | 44,591 | - | 66,502 |
| J.C. Penney derivative position (included in other assets)(1) | 10,687 | - | 10,687 | - |
| Total assets | $ 1,146,839 | $ 447,526 | $ 10,687 | $ 688,626 |
| | | | | |
| Mandatorily redeemable instruments (included in other liabilities) | $ 55,073 | $ 55,073 | $ - | $ - |
| Interest rate swap (included in other liabilities) | 35,505 | - | 35,505 | - |
| Total liabilities | $ 90,578 | $ 55,073 | $ 35,505 | $ - |

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

| | As of December 31, 2012 | | | |
|---|---|---|---|---|
| (Amounts in thousands) | Total | Level 1 | Level 2 | Level 3 |
| Marketable securities | $ 398,188 | $ 398,188 | $ - | $ - |
| Real Estate Fund investments (75% of which is attributable to noncontrolling interests) | 600,786 | - | - | 600,786 |
| Deferred compensation plan assets (included in other assets) | 105,200 | 42,569 | - | 62,631 |
| J.C. Penney derivative position (included in other assets)(1) | 11,165 | - | 11,165 | - |
| Total assets | $ 1,115,339 | $ 440,757 | $ 11,165 | $ 663,417 |
| | | | | |
| Mandatorily redeemable instruments (included in other liabilities) | $ 55,011 | $ 55,011 | $ - | $ - |
| Interest rate swap (included in other liabilities) | 50,065 | - | 50,065 | - |
| Total liabilities | $ 105,076 | $ 55,011 | $ 50,065 | $ - |

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

**15. Fair Value Measurements – continued**

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

Real Estate Fund Investments

At June 30, 2013, our Real Estate Fund had ten investments with an aggregate fair value of $622,124,000, or $114,751,000 in excess of cost. These investments are classified as Level 3. We use a discounted cash flow valuation technique to estimate the fair value of each of these investments, which is updated quarterly by personnel responsible for the management of each investment and reviewed by senior management at each reporting period. The discounted cash flow valuation technique requires us to estimate cash flows for each investment over the anticipated holding period, which currently ranges from 0.1 to 7.0 years. Cash flows are derived from property rental revenue (base rents plus reimbursements) less operating expenses, real estate taxes and capital and other costs, plus projected sales proceeds in the year of exit. Property rental revenue is based on leases currently in place and our estimates for future leasing activity, which are based on current market rents for similar space plus a projected growth factor. Similarly, estimated operating expenses and real estate taxes are based on amounts incurred in the current period plus a projected growth factor for future periods. Anticipated sales proceeds at the end of an investment's expected holding period are determined based on the net cash flow of the investment in the year of exit, divided by a terminal capitalization rate, less estimated selling costs.

The fair value of each property is calculated by discounting the future cash flows (including the projected sales proceeds), using an appropriate discount rate and then reduced by the property's outstanding debt, if any, to determine the fair value of the equity in each investment. Significant unobservable quantitative inputs used in determining the fair value of each investment include capitalization rates and discount rates. These rates are based on the location, type and nature of each property, and current and anticipated market conditions, which are derived from original underwriting assumptions, industry publications and from the experience of our Acquisitions and Capital Markets departments. Significant unobservable quantitative inputs in the table below were utilized in determining the fair value of these Fund investments at June 30, 2013.

| Unobservable Quantitative Input | Range | Weighted Average (based on fair value of investments) |
|---|---|---|
| Discount rates | 12.5% to 19.0% | 14.3 % |
| Terminal capitalization rates | 5.3% to 6.0% | 5.8 % |

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

The table below summarizes the changes in the fair value of Fund investments that are classified as Level 3, for the three and six months ended June 30, 2013 and 2012.

| | Real Estate Fund Investments For the Three Months Ended June 30, | | Real Estate Fund Investments For the Six Months Ended June 30, | |
|---|---|---|---|---|
| (Amounts in thousands) | 2013 | 2012 | 2013 | 2012 |
| Beginning balance | $ 571,306 | $ 324,514 | $ 600,786 | $ 346,650 |
| Purchases | 17,225 | 44,592 | 30,893 | 44,592 |
| Sales/Returns | - | - | (56,664) | (31,052) |
| Unrealized gains | 33,593 | 21,135 | 47,109 | 27,979 |
| Other, net | - | (1,786) | - | 286 |
| Ending balance | $ 622,124 | $ 388,455 | $ 622,124 | $ 388,455 |

**15. 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 and six months ended June 30, 2013 and 2012.

| | Deferred Compensation Plan Assets For the Three Months Ended June 30, | | Deferred Compensation Plan Assets For the Six Months Ended June 30, | |
|---|---|---|---|---|
| (Amounts in thousands) | 2013 | 2012 | 2013 | 2012 |
| Beginning balance | $ 65,010 | $ 58,881 | $ 62,631 | $ 56,221 |
| Purchases | 440 | 155 | 3,147 | 3,766 |
| Sales | (1,748) | (616) | (4,445) | (4,011) |
| Realized and unrealized gains | 2,782 | (123) | 4,136 | 2,269 |
| Other, net | 18 | 16 | 1,033 | 68 |
| Ending balance | $ 66,502 | $ 58,313 | $ 66,502 | $ 58,313 |

*Fair Value Measurements on a Nonrecurring Basis*

Assets measured at fair value on a nonrecurring basis on our consolidated balance sheets consist primarily of our investment in Toys “R” Us and real estate assets that were written-down to estimated fair value at December 31, 2012. The fair values of these assets were determined using widely accepted valuation techniques, including (i) discounted cash flow analysis, which considers, among other things, leasing assumptions, growth rates, discount rates and terminal capitalization rates, (ii) income capitalization approach, which considers prevailing market capitalization rates, and (iii) comparable sales activity. Generally, we consider multiple valuation techniques when measuring fair values but in certain circumstances, a single valuation technique may be appropriate. The tables below aggregate the fair values of these assets by their levels in the fair value hierarchy.

| | As of December 31, 2012 | | | |
|---|---|---|---|---|
| (Amounts in thousands) | Total | Level 1 | Level 2 | Level 3 |
| Investment in Toys "R" Us | $ 478,041 | $ - | $ - | $ 478,041 |
| Real estate assets | 189,529 | - | - | 189,529 |
| Condominium units (included in other assets) | 52,142 | - | - | 52,142 |
| Total assets | $ 719,712 | $ - | $ - | $ 719,712 |

**15. Fair Value Measurements – continued**

*Financial Assets and Liabilities not Measured at Fair Value*

Financial assets and liabilities that are not measured at fair value on our consolidated balance sheets include cash equivalents (primarily money market funds, which invest in obligations of the United States government), mortgage and mezzanine loans receivable and our secured and unsecured debt. Estimates of the fair value of these instruments are determined by the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate, which is provided by a third-party specialist. For floating rate debt, we use forward rates derived from observable market yield curves to project the expected cash flows we would be required to make under the instrument. The fair value of cash equivalents is classified as Level 1 and the fair value of our mortgage and mezzanine loans receivable is classified as Level 3. The fair value of our secured and unsecured debt are classified as Level 2. The table below summarizes the carrying amounts and fair value of these financial instruments as of June 30, 2013 and December 31, 2012.

| | As of June 30, 2013 | | As of December 31, 2012 | |
|---|---|---|---|---|
| (Amounts in thousands) | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash equivalents | $ 525,834 | $ 525,834 | $ 543,000 | $ 543,000 |
| Mortgage and mezzanine loans receivable | 175,699 | 175,331 | 225,359 | 221,446 |
| | $ 701,533 | $ 701,165 | $ 768,359 | $ 764,446 |
| Debt: | | | | |
| Mortgages payable | $ 8,582,573 | $ 8,571,000 | $ 8,663,326 | $ 8,690,000 |
| Senior unsecured notes | 1,358,182 | 1,427,000 | 1,358,008 | 1,468,000 |
| Revolving credit facility debt | 83,982 | 83,982 | 1,170,000 | 1,170,000 |
| | $ 10,024,737 | $ 10,081,982 | $ 11,191,334 | $ 11,328,000 |

**16. Incentive Compensation**

Our 2010 Omnibus Share Plan (the "Plan") provides for grants of incentive and non-qualified stock options, restricted stock, restricted Operating Partnership units and out-performance plan rewards to certain of our employees and officers. We account for all stock-based compensation in accordance ASC 718, *Compensation – Stock Compensation*. Stock-based compensation expense was $9,129,000 and $8,438,000 in the three months ended June 30, 2013 and 2012, respectively and $16,595,000 and $15,047,000 in the six months ended June 30, 2013 and 2012, respectively.

On March 15, 2013, our Compensation Committee (the "Committee") approved the 2013 Outperformance Plan, a performance-based equity compensation plan and related form of award agreement (the "2013 OPP"). Under the 2013 OPP, participants have the opportunity to earn compensation payable in the form of operating partnership units in the second and/or third year during a three-year performance measurement period, if and only if, we outperform a predetermined total shareholder return ("TSR") and/or outperform the market with respect to relative total TSR. Awards under our 2013 OPP may be earned if (i) we achieve a TSR greater than 14% over the two-year performance measurement period, or 21% over the three-year performance measurement period (the "Absolute Component"), and/or (ii) we achieve a TSR above that of the SNL US REIT Index (the "Index") over a two-year or three-year performance measurement period (the "Relative Component"). To the extent awards would be earned under the Absolute Component but we underperform the Index, such awards earned would be reduced (and potentially fully negated) based on the degree to which we underperform the Index. In certain circumstances, in the event we outperform the Index but awards would not otherwise be fully earned under the Absolute Component, awards may be increased under the Relative Component. To the extent awards would otherwise be earned under the Relative Component but we fail to achieve at least a 6% per annum absolute TSR, such awards earned under the Relative Component would be reduced based on our absolute TSR performance, with no awards being earned in the event our TSR during the applicable measurement period is 0% or negative, irrespective of the degree to which we may outperform the Index. If the designated performance objectives are achieved, OPP Units are also subject to time-based vesting requirements. Awards earned under the 2013 OPP vest 33% in year three, 33% in year four and 34% in year five. Dividends on awards earned accrue during the performance measurement period. In addition, our executive officers (for the purposes of Section 16 of the Exchange Act) are required to hold earned OPP awards for one year following vesting.

## 17. Fee and Other Income

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

| (Amounts in thousands) | For the Three Months Ended June 30, 2013 | For the Three Months Ended June 30, 2012 | For the Six Months Ended June 30, 2013 | For the Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| BMS cleaning fees | $ 16,509 | $ 16,982 | $ 33,173 | $ 32,492 |
| Signage revenue | 8,347 | 4,879 | 14,828 | 9,469 |
| Management and leasing fees | 6,435 | 4,546 | 11,693 | 9,300 |
| Lease termination fees[1] | 7,129 | 479 | 67,155 | 890 |
| Other income | 9,595 | 6,151 | 18,390 | 14,164 |
| | $ 48,015 | $ 33,037 | $ 145,239 | $ 66,315 |

(1) On February 6, 2013, we received $124,000 pursuant to a settlement agreement with Stop & Shop, which terminates our right to receive $6,000 of additional annual rent under a 1992 agreement, for a period potentially through 2031. As a result of this settlement, we collected a $47,900 receivable and recognized $59,599 of income in the first quarter of 2013.

Management and leasing fees include management fees from Interstate Properties, a related party, of $131,000 and $192,000 for the three months ended June 30, 2013 and 2012, respectively, and $333,000 and $391,000 for the six months ended June 30, 2013 and 2012, respectively. The above table excludes fee income from partially owned entities, which is typically included in "income from partially owned entities" (see Note 7 – *Investments in Partially Owned Entities*).

## 18. Interest and Other Investment Income (Loss), Net

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

| (Amounts in thousands) | For the Three Months Ended June 30, 2013 | For the Three Months Ended June 30, 2012 | For the Six Months Ended June 30, 2013 | For the Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Income (loss) from the mark-to-market of J.C. Penney derivative position | $ 9,065 | $ (58,732) | $ (13,475) | $ (57,687) |
| Income from prepayment penalties in connection with the repayment of a mezzanine loan | 5,267 | - | 5,267 | - |
| Interest on mezzanine loans receivable | 4,940 | 3,165 | 10,017 | 6,015 |
| Dividends and interest on marketable securities | 2,770 | 4,846 | 5,540 | 11,093 |
| Mark-to-market of investments in our deferred compensation plan [1] | 2,492 | 24 | 5,938 | 4,151 |
| Non-cash impairment loss on J.C. Penney common shares | - | - | (39,487) | - |
| Other, net | 1,882 | 1,525 | 3,542 | 2,921 |
| | $ 26,416 | $ (49,172) | $ (22,658) | $ (33,507) |

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

## 19. Interest and Debt Expense

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

| (Amounts in thousands) | For the Three Months Ended June 30, 2013 | For the Three Months Ended June 30, 2012 | For the Six Months Ended June 30, 2013 | For the Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Interest expense | $ 126,161 | $ 118,747 | $ 250,887 | $ 243,394 |
| Amortization of deferred financing costs | 4,833 | 5,918 | 10,255 | 11,346 |
| Capitalized interest | (9,232) | (345) | (17,492) | (361) |
| | $ 121,762 | $ 124,320 | $ 243,650 | $ 254,379 |

## 20. Income Per Share

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

| (Amounts in thousands, except per share amounts) | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **Numerator:** | | | | |
| Income from continuing operations, net of income attributable to noncontrolling interests | $ 97,862 | $ 21,163 | $ 165,383 | $ 204,792 |
| Income from discontinued operations, net of income attributable to noncontrolling interests | 60,332 | 17,134 | 255,733 | 85,027 |
| Net income attributable to Vornado | 158,194 | 38,297 | 421,116 | 289,819 |
| Preferred share dividends | (20,368) | (17,787) | (42,070) | (35,574) |
| Preferred unit and share redemptions | 8,100 | - | (1,130) | - |
| Net income attributable to common shareholders | 145,926 | 20,510 | 377,916 | 254,245 |
| Earnings allocated to unvested participating securities | (31) | (40) | (86) | (79) |
| Numerator for basic income per share | 145,895 | 20,470 | 377,830 | 254,166 |
| Impact of assumed conversions: | | | | |
| Convertible preferred share dividends | 27 | - | 55 | 57 |
| Numerator for diluted income per share | $ 145,922 | $ 20,470 | $ 377,885 | $ 254,223 |
| **Denominator:** | | | | |
| Denominator for basic income per share – weighted average shares | 186,931 | 185,673 | 186,842 | 185,521 |
| Effect of dilutive securities[(1)]: | | | | |
| Employee stock options and restricted share awards | 742 | 669 | 737 | 700 |
| Convertible preferred shares | 47 | - | 48 | 50 |
| Denominator for diluted income per share – weighted average shares and assumed conversions | 187,720 | 186,342 | 187,627 | 186,271 |
| **INCOME PER COMMON SHARE – BASIC:** | | | | |
| Income from continuing operations, net | $ 0.46 | $ 0.02 | $ 0.65 | $ 0.91 |
| Income from discontinued operations, net | 0.32 | 0.09 | 1.37 | 0.46 |
| Net income per common share | $ 0.78 | $ 0.11 | $ 2.02 | $ 1.37 |
| **INCOME PER COMMON SHARE – DILUTED:** | | | | |
| Income from continuing operations, net | $ 0.46 | $ 0.02 | $ 0.65 | $ 0.91 |
| Income from discontinued operations, net | 0.32 | 0.09 | 1.36 | 0.45 |
| Net income per common share | $ 0.78 | $ 0.11 | $ 2.01 | $ 1.36 |

**(1)** The effect of dilutive securities in the three months ended June 30, 2013 and 2012 excludes an aggregate of 11,913 and 14,002 weighted average common share equivalents, respectively, and 11,911 and 16,292 weighted average common share equivalents in the six months ended June 30, 2013 and 2012, respectively, as their effect was anti-dilutive.

## 21. Commitments and Contingencies

*Insurance*

We maintain general liability insurance with limits of $300,000,000 per occurrence and all risk property and rental value insurance with limits of $2.0 billion per occurrence, including coverage for terrorist acts, with sub-limits for certain perils such as floods. Our California properties have earthquake insurance with coverage of $180,000,000 per occurrence, subject to a deductible in the amount of 5% of the value of the affected property, up to a $180,000,000 annual aggregate.

Penn Plaza Insurance Company, LLC ("PPIC"), our wholly owned consolidated subsidiary, acts as a re-insurer with respect to a portion of all risk property and rental value insurance and a portion of our earthquake insurance coverage, and as a direct insurer for coverage for acts of terrorism, including nuclear, biological, chemical and radiological ("NBCR") acts, as defined by the Terrorism Risk Insurance Program Reauthorization Act. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies and the Federal government with no exposure to PPIC. Coverage for NBCR losses is up to $2.0 billion per occurrence, for which PPIC is responsible for a deductible of $3,200,000 and 15% of the balance of a covered loss and the Federal government is responsible for the remaining 85% of a covered loss. We are ultimately responsible for any losses incurred by PPIC.

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

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

*Other Commitments and Contingencies*

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 June 30, 2013, the aggregate dollar amount of these guarantees and master leases is approximately $372,000,000.

At June 30, 2013, $22,053,000 of letters of credit were outstanding under one of our revolving credit facilities. Our credit facilities contain financial covenants that require us to maintain minimum interest coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our credit facilities also contain customary conditions precedent to borrowing, including representations and warranties, and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

Two of our wholly owned subsidiaries that are contracted to develop and operate the Cleveland Medical Mart and Convention Center, in Cleveland, Ohio, are required to fund $11,500,000, primarily for tenant improvements, and they are responsible for operating expenses and are entitled to the net operating income, if any, upon the completion of development and the commencement of operations. As of June 30, 2013, our subsidiaries have funded approximately $3,177,000 of the commitment.

As of June 30, 2013, we expect to fund additional capital to certain of our partially owned entities aggregating approximately $168,000,000.

## 22. Segment Information

As a result of certain organizational changes and asset sales in 2012, the Merchandise Mart segment no longer meets the criteria to be a separate reportable segment; accordingly, effective January 1, 2013, the remaining assets have been reclassified to our Other segment. We have also reclassified the prior period segment financial results to conform to the current year presentation. Below is a summary of net income and a reconciliation of net income to EBITDA[(1)] by segment for the three and six months ended June 30, 2013 and 2012.

| (Amounts in thousands) | For the Three Months Ended June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Total | New York | Washington, DC | Retail Properties | Toys | Other |
| Property rentals | $ 519,733 | $ 286,844 | $ 112,733 | $ 64,374 | $ - | $ 55,782 |
| Straight-line rent adjustments | 13,789 | 7,533 | 1,231 | 909 | - | 4,116 |
| Amortization of acquired below-market leases, net | 11,672 | 6,944 | 516 | 2,885 | - | 1,327 |
| Total rentals | 545,194 | 301,321 | 114,480 | 68,168 | - | 61,225 |
| Tenant expense reimbursements | 75,659 | 38,785 | 10,666 | 22,028 | - | 4,180 |
| Cleveland Medical Mart development project | 16,990 | - | - | - | - | 16,990 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 16,509 | 20,979 | - | - | - | (4,470) |
| Signage revenue | 8,347 | 8,347 | - | - | - | - |
| Management and leasing fees | 6,435 | 2,854 | 3,459 | 320 | - | (198) |
| Lease termination fees | 7,129 | 5,432 | 182 | 198 | - | 1,317 |
| Other income | 9,595 | 3,254 | 5,530 | 283 | - | 528 |
| Total revenues | 685,858 | 380,972 | 134,317 | 90,997 | - | 79,572 |
| Operating expenses | 261,080 | 157,622 | 48,290 | 34,091 | - | 21,077 |
| Depreciation and amortization | 135,486 | 69,387 | 30,619 | 15,457 | - | 20,023 |
| General and administrative | 54,323 | 8,881 | 6,873 | 5,169 | - | 33,400 |
| Cleveland Medical Mart development project | 15,151 | - | - | - | - | 15,151 |
| Acquisition related costs | 3,350 | - | - | - | - | 3,350 |
| Total expenses | 469,390 | 235,890 | 85,782 | 54,717 | - | 93,001 |
| Operating income (loss) | 216,468 | 145,082 | 48,535 | 36,280 | - | (13,429) |
| (Loss) applicable to Toys | (36,861) | - | - | - | (36,861) | - |
| Income (loss) from partially owned entities | 1,472 | 4,226 | (2,449) | 423 | - | (728) |
| Income from Real Estate Fund | 34,470 | - | - | - | - | 34,470 |
| Interest and other investment income (loss), net | 26,416 | 1,443 | 6 | (48) | - | 25,015 |
| Interest and debt expense | (121,762) | (42,835) | (27,854) | (12,435) | - | (38,638) |
| Net gain on disposition of wholly owned and partially owned assets | 1,005 | - | - | - | - | 1,005 |
| Income (loss) before income taxes | 121,208 | 107,916 | 18,238 | 24,220 | (36,861) | 7,695 |
| Income tax expense | (2,877) | (961) | (805) | (749) | - | (362) |
| Income (loss) from continuing operations | 118,331 | 106,955 | 17,433 | 23,471 | (36,861) | 7,333 |
| Income (loss) from discontinued operations | 63,990 | - | - | 64,136 | - | (146) |
| Net income (loss) | 182,321 | 106,955 | 17,433 | 87,607 | (36,861) | 7,187 |
| Less net income attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (14,930) | (1,381) | - | (13) | - | (13,536) |
| Operating Partnership | (8,849) | - | - | - | - | (8,849) |
| Preferred unit distributions of the Operating Partnership | (348) | - | - | - | - | (348) |
| Net income (loss) attributable to Vornado | 158,194 | 105,574 | 17,433 | 87,594 | (36,861) | (15,546) |
| Interest and debt expense[(2)] | 179,461 | 54,546 | 31,245 | 13,715 | 37,730 | 42,225 |
| Depreciation and amortization[(2)] | 182,131 | 74,573 | 35,248 | 16,348 | 33,882 | 22,080 |
| Income tax (benefit) expense [(2)] | (22,366) | 1,030 | 852 | 749 | (25,697) | 700 |
| EBITDA[(1)] | $ 497,420 | $ 235,723 (3) | $ 84,778 (4) | $ 118,406 (5) | $ 9,054 | $ 49,459 (6) |

See notes on page 37.

**22. Segment Information – continued**

| (Amounts in thousands) | For the Three Months Ended June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Total | New York | Washington, DC | Retail Properties | Toys | Other |
| Property rentals | $ 484,016 | $ 245,948 | $ 118,014 | $ 64,554 | $ - | $ 55,500 |
| Straight-line rent adjustments | 20,647 | 17,065 | 1,258 | 2,276 | - | 48 |
| Amortization of acquired below-market leases, net | 12,570 | 7,623 | 508 | 2,950 | - | 1,489 |
| Total rentals | 517,233 | 270,636 | 119,780 | 69,780 | - | 57,037 |
| Tenant expense reimbursements | 71,409 | 36,985 | 10,862 | 20,986 | - | 2,576 |
| Cleveland Medical Mart development project | 56,304 | - | - | - | - | 56,304 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 16,982 | 23,911 | - | - | - | (6,929) |
| Signage revenue | 4,879 | 4,879 | - | - | - | - |
| Management and leasing fees | 4,546 | 1,113 | 2,384 | 1,068 | - | (19) |
| Lease termination fees | 479 | 233 | 128 | 1 | - | 117 |
| Other income | 6,151 | 576 | 4,968 | 373 | - | 234 |
| Total revenues | 677,983 | 338,333 | 138,122 | 92,208 | - | 109,320 |
| Operating expenses | 243,485 | 143,190 | 47,416 | 33,708 | - | 19,171 |
| Depreciation and amortization | 128,372 | 56,665 | 35,017 | 18,495 | - | 18,195 |
| General and administrative | 46,832 | 6,654 | 6,231 | 6,367 | - | 27,580 |
| Cleveland Medical Mart development project | 53,935 | - | - | - | - | 53,935 |
| Acquisition related costs | 2,559 | - | - | - | - | 2,559 |
| Total expenses | 475,183 | 206,509 | 88,664 | 58,570 | - | 121,440 |
| Operating income (loss) | 202,800 | 131,824 | 49,458 | 33,638 | - | (12,120) |
| (Loss) applicable to Toys | (19,190) | - | - | - | (19,190) | - |
| Income (loss) from partially owned entities | 12,563 | 6,851 | (519) | 294 | - | 5,937 |
| Income from Real Estate Fund | 20,301 | - | - | - | - | 20,301 |
| Interest and other investment (loss) income, net | (49,172) | 1,057 | 29 | 6 | - | (50,264) |
| Interest and debt expense | (124,320) | (36,407) | (27,999) | (16,170) | - | (43,744) |
| Net gain on disposition of wholly owned and partially owned assets | 4,856 | - | - | - | - | 4,856 |
| Income (loss) before income taxes | 47,838 | 103,325 | 20,969 | 17,768 | (19,190) | (75,034) |
| Income tax expense | (7,479) | (1,064) | (852) | - | - | (5,563) |
| Income (loss) from continuing operations | 40,359 | 102,261 | 20,117 | 17,768 | (19,190) | (80,597) |
| Income (loss) from discontinued operations | 17,869 | (32) | 2,956 | 16,254 | - | (1,309) |
| Net income (loss) | 58,228 | 102,229 | 23,073 | 34,022 | (19,190) | (81,906) |
| Less net (income) loss attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (14,721) | (2,998) | - | 97 | - | (11,820) |
| Operating Partnership | (1,337) | - | - | - | - | (1,337) |
| Preferred unit distributions of the Operating Partnership | (3,873) | - | - | - | - | (3,873) |
| Net income (loss) attributable to Vornado | 38,297 | 99,231 | 23,073 | 34,119 | (19,190) | (98,936) |
| Interest and debt expense[(2)] | 190,942 | 46,413 | 32,549 | 20,102 | 37,293 | 54,585 |
| Depreciation and amortization[(2)] | 184,028 | 63,664 | 39,656 | 22,131 | 32,505 | 26,072 |
| Income tax (benefit) expense[(2)] | (5,214) | 1,113 | 1,034 | - | (14,103) | 6,742 |
| EBITDA[(1)] | $ 408,053 | $ 210,421 **(3)** | $ 96,312 **(4)** | $ 76,352 **(5)** | $ 36,505 | $ (11,537) **(6)** |

See notes on page 37.

**22. Segment Information – continued**

| (Amounts in thousands) | For the Six Months Ended June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Total | New York | Washington, DC | Retail Properties | Toys | Other |
| Property rentals | $ 1,018,247 | $ 561,494 | $ 225,005 | $ 128,785 | $ - | $ 102,963 |
| Straight-line rent adjustments | 32,297 | 17,859 | 4,008 | 2,367 | - | 8,063 |
| Amortization of acquired below-market leases, net | 28,506 | 19,033 | 1,022 | 5,775 | - | 2,676 |
| Total rentals | 1,079,050 | 598,386 | 230,035 | 136,927 | - | 113,702 |
| Tenant expense reimbursements | 152,415 | 81,456 | 20,802 | 42,404 | - | 7,753 |
| Cleveland Medical Mart development project | 29,133 | - | - | - | - | 29,133 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 33,173 | 42,001 | - | - | - | (8,828) |
| Signage revenue | 14,828 | 14,828 | - | - | - | - |
| Management and leasing fees | 11,693 | 4,918 | 6,266 | 799 | - | (290) |
| Lease termination fees | 67,155 | 5,490 | 550 | 59,797 | - | 1,318 |
| Other income | 18,390 | 3,969 | 11,395 | 859 | - | 2,167 |
| Total revenues | 1,405,837 | 751,048 | 269,048 | 240,786 | - | 144,955 |
| Operating expenses | 520,953 | 317,853 | 95,612 | 68,090 | - | 39,398 |
| Depreciation and amortization | 277,570 | 145,621 | 61,569 | 32,177 | - | 38,203 |
| General and administrative | 108,905 | 17,703 | 13,798 | 10,584 | - | 66,820 |
| Cleveland Medical Mart development project | 26,525 | - | - | - | - | 26,525 |
| Acquisition related costs | 3,951 | - | - | - | - | 3,951 |
| Total expenses | 937,904 | 481,177 | 170,979 | 110,851 | - | 174,897 |
| Operating income (loss) | 467,933 | 269,871 | 98,069 | 129,935 | - | (29,942) |
| (Loss) applicable to Toys | (35,102) | - | - | - | (35,102) | - |
| Income (loss) from partially owned entities | 22,238 | 9,831 | (4,542) | 1,324 | - | 15,625 |
| Income from Real Estate Fund | 51,034 | - | - | - | - | 51,034 |
| Interest and other investment (loss) income, net | (22,658) | 2,608 | 82 | 4 | - | (25,352) |
| Interest and debt expense | (243,650) | (83,453) | (56,104) | (24,076) | - | (80,017) |
| Net loss on disposition of wholly owned and partially owned assets | (35,719) | - | - | - | - | (35,719) |
| Income (loss) before income taxes | 204,076 | 198,857 | 37,505 | 107,187 | (35,102) | (104,371) |
| Income tax expense | (3,950) | (1,233) | (1,183) | (749) | - | (785) |
| Income (loss) from continuing operations | 200,126 | 197,624 | 36,322 | 106,438 | (35,102) | (105,156) |
| Income from discontinued operations | 271,122 | - | - | 270,849 | - | 273 |
| Net income (loss) | 471,248 | 197,624 | 36,322 | 377,287 | (35,102) | (104,883) |
| Less net income attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (26,216) | (2,962) | - | (109) | - | (23,145) |
| Operating Partnership | (22,782) | - | - | - | - | (22,782) |
| Preferred unit distributions of the Operating Partnership | (1,134) | - | - | - | - | (1,134) |
| Net income (loss) attributable to Vornado | 421,116 | 194,662 | 36,322 | 377,178 | (35,102) | (151,944) |
| Interest and debt expense[(2)] | 368,241 | 104,235 | 62,998 | 27,938 | 80,912 | 92,158 |
| Depreciation and amortization[(2)] | 376,316 | 152,986 | 70,396 | 34,867 | 71,556 | 46,511 |
| Income tax expense[(2)] | 38,393 | 1,377 | 1,306 | 749 | 33,649 | 1,312 |
| EBITDA[(1)] | $ 1,204,066 | $ 453,260 (3) | $ 171,022 (4) | $ 440,732 (5) | $ 151,015 | $ (11,963)(6) |

See notes on page 37.

## 22. Segment Information – continued

| (Amounts in thousands) | For the Six Months Ended June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Total | New York | Washington, DC | Retail Properties | Toys | Other |
| Property rentals | $ 958,447 | $ 479,884 | $ 240,818 | $ 129,146 | $ - | $ 108,599 |
| Straight-line rent adjustments | 41,966 | 34,194 | 3,115 | 3,580 | - | 1,077 |
| Amortization of acquired below-market leases, net | 26,313 | 15,318 | 1,031 | 7,107 | - | 2,857 |
| Total rentals | 1,026,726 | 529,396 | 244,964 | 139,833 | - | 112,533 |
| Tenant expense reimbursements | 141,906 | 73,697 | 20,870 | 41,962 | - | 5,377 |
| Cleveland Medical Mart development project | 111,363 | - | - | - | - | 111,363 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 32,492 | 46,558 | - | - | - | (14,066) |
| Signage revenue | 9,469 | 9,469 | - | - | - | - |
| Management and leasing fees | 9,300 | 2,221 | 5,167 | 1,904 | - | 8 |
| Lease termination fees | 890 | 256 | 128 | 1 | - | 505 |
| Other income | 14,164 | 2,333 | 10,558 | 714 | - | 559 |
| Total revenues | 1,346,310 | 663,930 | 281,687 | 184,414 | - | 216,279 |
| Operating expenses | 489,462 | 288,862 | 93,618 | 68,189 | - | 38,793 |
| Depreciation and amortization | 259,767 | 110,424 | 77,570 | 36,256 | - | 35,517 |
| General and administrative | 102,122 | 15,241 | 13,181 | 12,700 | - | 61,000 |
| Cleveland Medical Mart development project | 106,696 | - | - | - | - | 106,696 |
| Acquisition related costs | 3,244 | - | - | - | - | 3,244 |
| Total expenses | 961,291 | 414,527 | 184,369 | 117,145 | - | 245,250 |
| Operating income (loss) | 385,019 | 249,403 | 97,318 | 67,269 | - | (28,971) |
| Income applicable to Toys | 97,281 | - | - | - | 97,281 | - |
| Income (loss) from partially owned entities | 32,223 | 11,036 | (2,389) | 698 | - | 22,878 |
| Income from Real Estate Fund | 32,063 | - | - | - | - | 32,063 |
| Interest and other investment (loss) income, net | (33,507) | 2,109 | 73 | 20 | - | (35,709) |
| Interest and debt expense | (254,379) | (72,548) | (57,097) | (32,522) | - | (92,212) |
| Net gain on disposition of wholly owned and partially owned assets | 4,856 | - | - | - | - | 4,856 |
| Income (loss) before income taxes | 263,556 | 190,000 | 37,905 | 35,465 | 97,281 | (97,095) |
| Income tax expense | (14,304) | (1,665) | (1,302) | - | - | (11,337) |
| Income (loss) from continuing operations | 249,252 | 188,335 | 36,603 | 35,465 | 97,281 | (108,432) |
| Income (loss) from discontinued operations | 89,240 | (640) | 4,542 | 26,473 | - | 58,865 |
| Net income (loss) | 338,492 | 187,695 | 41,145 | 61,938 | 97,281 | (49,567) |
| Less net (income) loss attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (24,318) | (5,174) | - | 211 | - | (19,355) |
| Operating Partnership | (16,608) | - | - | - | - | (16,608) |
| Preferred unit distributions of the Operating Partnership | (7,747) | - | - | - | - | (7,747) |
| Net income (loss) attributable to Vornado | 289,819 | 182,521 | 41,145 | 62,149 | 97,281 | (93,277) |
| Interest and debt expense[(2)] | 384,024 | 93,471 | 66,206 | 40,540 | 68,862 | 114,945 |
| Depreciation and amortization[(2)] | 375,201 | 125,575 | 87,916 | 44,406 | 67,211 | 50,093 |
| Income tax expense[(2)] | 46,226 | 1,806 | 1,557 | - | 29,100 | 13,763 |
| EBITDA[(1)] | $ 1,095,270 | $ 403,373 (3) | $ 196,824 (4) | $ 147,095 (5) | $ 262,454 | $ 85,524 (6) |

See notes on the following page.

**22. Segment Information - continued**

**Notes to preceding tabular information:**

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

**(2)** Interest and debt expense, depreciation and amortization and income tax (benefit) expense in the reconciliation of net income (loss) to EBITDA includes our share of these items from partially owned entities.

**(3)** The elements of "New York" EBITDA are summarized below.

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| (Amounts in thousands) | 2013 | 2012 | 2013 | 2012 |
| Office | $ 158,186 | $ 142,077 | $ 304,482 | $ 277,257 |
| Retail | 57,230 | 45,577 | 117,612 | 90,497 |
| Alexander's (decrease due to sale of Kings Plaza in November 2012) | 10,213 | 13,026 | 20,754 | 26,397 |
| Hotel Pennsylvania | 10,094 | 9,741 | 10,412 | 9,222 |
| Total New York | $ 235,723 | $ 210,421 | $ 453,260 | $ 403,373 |

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| (Amounts in thousands) | 2013 | 2012 | 2013 | 2012 |
| Office, excluding the Skyline Properties | $ 66,136 | $ 74,953 | $ 133,243 | $ 153,287 |
| Skyline properties | 7,543 | 10,661 | 15,705 | 22,191 |
| Total Office | 73,679 | 85,614 | 148,948 | 175,478 |
| Residential | 11,099 | 10,698 | 22,074 | 21,346 |
| Total Washington, DC | $ 84,778 | $ 96,312 | $ 171,022 | $ 196,824 |

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

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| (Amounts in thousands) | 2013 | 2012 | 2013 | 2012 |
| Strip shopping centers[(a)] | $ 101,529 | $ 52,268 | $ 204,890 | $ 99,176 |
| Regional malls[(b)] | 16,877 | 24,084 | 235,842 | 47,919 |
| Total Retail properties | $ 118,406 | $ 76,352 | $ 440,732 | $ 147,095 |

---

**(a)** The three and six months ended June 30, 2013, includes a $33,058 net gain on sale of Philadelphia (Market Street) and a $32,169 net gain on sale of San Jose (The Plant). The six months ended June 30, 2013, includes $59,599 of income pursuant to a settlement agreement with Stop & Shop.

**(b)** The six months ended June 30, 2013, includes a $202,275 net gain on sale of Green Acres Mall.

**22. Segment Information - continued**

**Notes to preceding tabular information - continued:**

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

| (Amounts in thousands) | For the Three Months Ended June 30, 2013 | For the Three Months Ended June 30, 2012 | For the Six Months Ended June 30, 2013 | For the Six Months Ended June 30, 2012 |
|---|---|---|---|---|
| Our share of Real Estate Fund: | | | | |
| (Loss) income before net realized/unrealized gains | $ (1,713) | $ 170 | $ (251) | $ 2,288 |
| Net unrealized gains | 8,398 | 5,284 | 11,777 | 6,995 |
| Carried interest | 13,426 | 2,541 | 15,609 | 2,541 |
| Total | 20,111 | 7,995 | 27,135 | 11,824 |
| Merchandise Mart Building, 7 West 34th Street and trade shows | 22,448 | 17,349 | 37,161 | 32,649 |
| 555 California Street | 11,022 | 10,377 | 21,651 | 20,692 |
| LNR[(a)] | - | 11,671 | 20,443 | 27,233 |
| Lexington[(b)] | - | 7,703 | 6,931 | 16,921 |
| Other investments | 8,014 | 11,523 | 12,890 | 20,823 |
| | 61,595 | 66,618 | 126,211 | 130,142 |
| Corporate general and administrative expenses[(c)] | (24,831) | (21,812) | (47,587) | (44,129) |
| Investment income and other, net[(c)] | 16,709 | 15,294 | 28,045 | 27,628 |
| Income (loss) from the mark-to-market of J.C. Penney derivative position | 9,065 | (58,732) | (13,475) | (57,687) |
| Acquisition related costs | (3,350) | (2,559) | (3,951) | (3,244) |
| Severance costs (primarily reduction in force at the Merchandise Mart) | (1,542) | - | (4,154) | (506) |
| Net gain on sale of residential condominiums | 1,005 | 1,274 | 1,005 | 1,274 |
| Merchandise Mart discontinued operations (including net gains on sale of assets) | 5 | (6,410) | 2,146 | 56,401 |
| Non-cash impairment loss on J.C. Penney common shares | - | - | (39,487) | - |
| Loss on sale of J.C. Penney common shares | - | - | (36,800) | - |
| Net income attributable to noncontrolling interests in the Operating Partnership | (8,849) | (1,337) | (22,782) | (16,608) |
| Preferred unit distributions of the Operating Partnership | (348) | (3,873) | (1,134) | (7,747) |
| | $ 49,459 | $ (11,537) | $ (11,963) | $ 85,524 |

**(a)** On April 22, 2013, LNR was sold (see page 14 for details).

**(b)** In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale (see page 12 for details).

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

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Trustees
Vornado Realty Trust
New York, New York

We have reviewed the accompanying consolidated balance sheet of Vornado Realty Trust (the "Company") as of June 30, 2013, and the related consolidated statements of income and comprehensive income for the three-month and six-month periods ended June 30, 2013 and 2012, and changes in equity and cash flows for the six-month periods ended June 30, 2013 and 2012. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Vornado Realty Trust as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2012 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey
August 5, 2013

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

Certain statements contained in this Quarterly Report constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar expressions in this Quarterly Report on Form 10-Q. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2012. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

Management's Discussion and Analysis of Financial Condition and Results of Operations includes a discussion of our consolidated financial statements for the three and six months ended June 30, 2013. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the operating results for the full year. Certain prior year balances have been reclassified in order to conform to current year presentation.

**Overview**

*Business Objective and Operating Strategy*

Our business objective is to maximize shareholder value, which we measure by the total return provided to our shareholders. Below is a table comparing our performance to the FTSE NAREIT Office REIT Index ("Office REIT") and the Morgan Stanley REIT Index ("RMS") for the following periods ended June 30, 2013.

| | Total Return[1] | | |
|---|---|---|---|
| | **Vornado** | **Office REIT** | **RMS** |
| Three-month | (0.1%) | (1.0%) | (1.6%) |
| Six-month | 5.2% | 6.7% | 6.4% |
| One-year | 3.4% | 7.1% | 9.0% |
| Three-year | 27.0% | 42.1% | 65.5% |
| Five-year | 17.5% | 19.3% | 44.5% |
| Ten-year | 195.1% | 117.2% | 179.4% |

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

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

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

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

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

**Overview – continued**

*Quarter Ended June 30, 2013 Financial Results Summary*

Net income attributable to common shareholders for the quarter ended June 30, 2013 was $145,926,000, or $0.78 per diluted share, compared to $20,510,000, or $0.11 per diluted share for the quarter ended June 30, 2012. Net income for the quarters ended June 30, 2013 and 2012 include $65,665,000 and $17,130,000, respectively, of net gains on sale of real estate, and $3,113,000 and $14,879,000, respectively, of real estate impairment losses. In addition, the quarters ended June 30, 2013 and 2012 include certain other items that affect comparability, which are listed in the table below. The aggregate of net gains on sale of real estate, real estate impairment losses and the items in the table below, net of amounts attributable to noncontrolling interests, increased net income attributable to common shareholders for the quarter ended June 30, 2013 by $37,984,000, or $0.20 per diluted share and decreased net income attributable to common shareholders for the quarter ended June 30, 2012 by $48,933,000, or $0.26 per diluted share.

Funds From Operations attributable to common shareholders plus assumed conversions ("FFO") for the quarter ended June 30, 2013 was $235,348,000, or $1.25 per diluted share, compared to $166,672,000, or $0.89 per diluted share for the prior year's quarter. FFO for the quarters ended June 30, 2013 and 2012 include certain items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO by $9,645,000, or $0.05 per diluted share for the quarter ended June 30, 2013, and $31,816,000, or $0.17 per diluted share for the quarter ended June 30, 2012.

| | For the Three Months Ended June 30, | |
|---|---|---|
| (Amounts in thousands) | 2013 | 2012 |
| **Items that affect comparability income (expense):** | | |
| Toys "R" Us FFO | $ (25,088) | $ (7,660) |
| Income (loss) from the mark-to-market of J.C. Penney derivative position | 9,065 | (58,732) |
| Preferred unit redemptions | 8,100 | - |
| FFO from discontinued operations, including LNR and discontinued operations of Alexander's | 985 | 31,885 |
| Acquisition related costs | (3,350) | (2,559) |
| Other, net | (484) | 2,646 |
| | (10,772) | (34,420) |
| Noncontrolling interests' share of above adjustments | 1,127 | 2,604 |
| Items that affect comparability, net | $ (9,645) | $ (31,816) |

The percentage increase (decrease) in GAAP basis and Cash basis same store Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") of our operating segments for the quarter ended June 30, 2013 over the quarter ended June 30, 2012 and the trailing quarter ended March 31, 2013 are summarized below.

| **Same Store EBITDA:** | **New York** | **Washington, DC** | **Retail Properties** |
|---|---|---|---|
| June 30, 2013 vs. June 30, 2012 | | | |
| GAAP basis | 4.4% **(1)** | (5.5%) | 3.1% |
| Cash basis | 8.8% **(1)** | (5.9%) | 4.2% |
| June 30, 2013 vs. March 31, 2013 | | | |
| GAAP basis | 8.2% **(2)** | 0.1% | 1.9% |
| Cash basis | 9.8% **(2)** | 1.9% | 2.0% |

(1) Excluding the Hotel Pennsylvania, same store EBITDA increased by 4.5% and 9.1% on a GAAP and cash basis, respectively.

(2) Excluding the Hotel Pennsylvania, same store EBITDA increased by 3.7% and 4.6% on a GAAP and cash basis, respectively.

**Overview – continued**

*Six Months Ended June 30, 2013 Financial Results Summary*

Net income attributable to common shareholders for the six months ended June 30, 2013 was $377,916,000, or $2.01 per diluted share, compared to $254,245,000, or $1.36 per diluted share for the six months ended June 30, 2012. Net income for the six months ended June 30, 2013 and 2012 include $268,459,000 and $73,608,000, respectively, of net gains on sale of real estate, and $8,277,000 and $23,754,000, respectively, of real estate impairment losses. In addition, the six months ended June 30, 2013 and 2012 include certain items that affect comparability, which are listed in the table below. The aggregate of net gains on sale of real estate, real estate impairment losses and the items in the table below, net of amounts attributable to noncontrolling interests, increased net income attributable to common shareholders by $197,488,000, or $1.05 per diluted share for the six months ended June 30, 2013, and $137,840,000, or $0.74 per diluted share for the six months ended June 30, 2012.

FFO for the six months ended June 30, 2013 was $437,168,000, or $2.33 per diluted share, compared to $516,328,000, or $2.72 per diluted share for the six months ended June 30, 2012. FFO for the six months ended June 30, 2013 and 2012 include certain items that affect comparability, which are listed in the table below. The aggregate of these items, net of amounts attributable to noncontrolling interests, decreased FFO by $20,873,000, or $0.11 per diluted share for the six months ended June 30, 2013, and increased FFO by $129,387,000, or $0.68 per diluted share for six months ended June 30, 2012.

| | For the Six Months Ended June 30, | |
|---|---|---|
| (Amounts in thousands) | 2013 | 2012 |
| **Items that affect comparability income (expense):** | | |
| Stop & Shop litigation settlement income | $ 59,599 | $ - |
| FFO from discontinued operations, including LNR and discontinued operations of Alexander's | 27,379 | 71,205 |
| Non-cash impairment loss on J.C Penney common shares | (39,487) | - |
| Loss on sale of J.C. Penney common shares | (36,800) | - |
| Loss from the mark-to-market of J.C. Penney derivative position | (13,475) | (57,687) |
| Toys "R" Us FFO (after a $78,542 impairment loss in 2013) | (8,404) | 124,628 |
| Acquisition related costs | (3,951) | (3,244) |
| Preferred unit and share redemptions | (1,130) | - |
| Other, net | (6,268) | 3,015 |
| | (22,537) | 137,917 |
| Noncontrolling interests' share of above adjustments | 1,664 | (8,530) |
| Items that affect comparability, net | $ (20,873) | $ 129,387 |

The percentage increase (decrease) in GAAP basis and Cash basis same store EBITDA of our operating segments for the six months ended June 30, 2013 over the six months ended June 30, 2012 is summarized below.

| Same Store EBITDA: | New York | Washington, DC | Retail Properties |
|---|---|---|---|
| June 30, 2013 vs. June 30, 2012 | | | |
| GAAP basis | 4.5% **(1)** | (6.4%) | 3.1% |
| Cash basis | 8.9% **(1)** | (7.8%) | 3.3% |

(1) Excluding the Hotel Pennsylvania, same store EBITDA increased by 4.4% and 8.9% on a GAAP and cash basis, respectively.

Calculations of same store EBITDA, reconciliations of our net income to EBITDA and FFO and the reasons we consider these non-GAAP financial measures useful are provided in the following pages of Management's Discussion and Analysis of the Financial Condition and Results of Operations.

**2013 Dispositions**

On January 24, 2013, we completed the sale of the Green Acres Mall located in Valley Stream, New York, for $500,000,000. The sale resulted in net proceeds of $185,000,000, after repaying the existing loan and closing costs, and a net gain of $202,275,000.

On April 15, 2013, we sold The Plant, a power strip shopping center in San Jose, California, for $203,000,000. The sale resulted in net proceeds of $98,000,000, after repaying the existing loan and closing costs, and a net gain of $32,169,000.

On April 15, 2013, we sold a retail property in Philadelphia, which is a part of the Gallery at Market Street, for $60,000,000. The sale resulted in net proceeds of $58,000,000, and a net gain of $33,058,000.

On April 22, 2013, LNR was sold for $1.053 billion. We owned 26.2% of LNR and received net proceeds of approximately $241,000,000.

On April 24, 2013, a site located in the Downtown Crossing district of Boston was sold by a joint venture, which we owned 50% of. Our share of the net proceeds were approximately $45,000,000, which resulted in a $2,335,000 impairment loss that was recognized in the first quarter.

During 2013, we sold an additional 10 properties, including nine non-core retail properties, in separate transactions, for an aggregate of $40,200,000, in cash, which resulted in a net gain aggregating $492,000.

In the second quarter of 2013, we entered into an agreement to sell a parcel of land known as Harlem Park located at 1800 Park Avenue (at 125th Street) in New York City for $65,000,000, plus additional amounts which may be received for brownfield credits. The sale will result in net proceeds of approximately $62,000,000 and a net gain of approximately $22,000,000. The sale, which is subject to customary closing conditions, is expected to be completed in the third quarter.

**2013 Financings**

*Secured Debt*

On February 20, 2013, we completed a $390,000,000 financing of the retail condominium located at 666 Fifth Avenue at 53rd Street, which we had acquired December 2012. The 10-year fixed-rate interest only loan bears interest at 3.61%. This property was previously unencumbered. The net proceeds from this financing were approximately $387,000,000.

On March 25, 2013, we completed a $300,000,000 financing of the Outlets at Bergen Town Center, a 948,000 square foot shopping center located in Paramus, New Jersey. The 10-year fixed-rate interest only loan bears interest at 3.56%. The property was previously encumbered by a $282,000,000 floating-rate loan.

On June 7, 2013, we completed a $550,000,000 refinancing of Independence Plaza, a three-building 1,328 unit residential complex in the Tribeca submarket of Manhattan. The five-year, fixed-rate interest only mortgage loan bears interest at 3.48%. The property was previously encumbered by a $323,000,000 floating-rate loan. The net proceeds of $219,000,000, after repaying the existing loan and closing costs, were distributed to the partners, of which our share was $137,000,000.

*Unsecured Revolving Credit Facility*

On March 28, 2013, we extended one of our two revolving credit facilities from June 2015 to June 2017, with two six-month extension options. The interest on the extended facility was reduced from LIBOR plus 135 basis points to LIBOR plus 115 basis points. In addition, the facility fee was reduced from 30 basis points to 20 basis points.

**2013 Financings – continued**

*Preferred Securities*

On January 25, 2013, we sold 12,000,000 5.40% Series L Cumulative Redeemable Preferred Shares at a price of $25.00 per share in an underwritten public offering pursuant to an effective registration statement. We retained aggregate net proceeds of $290,536,000, after underwriters' discounts and issuance costs, and contributed the net proceeds to the Operating Partnership in exchange for 12,000,000 Series L Preferred Units (with economic terms that mirror those of the Series L Preferred Shares). Dividends on the Series L Preferred Shares are cumulative and payable quarterly in arrears. The Series L Preferred Shares are not convertible into, or exchangeable for, any of our properties or securities. On or after five years from the date of issuance (or sooner under limited circumstances), we may redeem the Series L Preferred Shares at a redemption price of $25.00 per share, plus accrued and unpaid dividends through the date of redemption. The Series L Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

On February 19, 2013, we redeemed all of the outstanding 6.75% Series F Cumulative Redeemable Preferred Shares and 6.75% Series H Cumulative Redeemable Preferred Shares at par, for an aggregate of $262,500,000 in cash, plus accrued and unpaid dividends through the date of redemption.

On May 9, 2013, we redeemed all of the outstanding 6.875% Series D-15 Cumulative Redeemable Preferred Units with an aggregate face amount of $45,000,000 for $36,900,000 in cash, plus accrued and unpaid distributions through the date of redemption.

**Recently Issued Accounting Literature**

In February 2013, the Financial Accounting Standards Board ("FASB") issued an update ("ASU 2013-02") to Accounting Standards Codification ("ASC") Topic 220, *Comprehensive Income* ("Topic 220"). ASU 2013-02 requires additional disclosures regarding significant reclassifications out of each component of accumulated other comprehensive income, including the effect on the respective line items of net income for amounts that are required to be reclassified into net income in their entirety and cross-references to other disclosures providing additional information for amounts that are not required to be reclassified into net income in their entirety. The adoption of this update as of January 1, 2013, did not have a material impact on our consolidated financial statements, but resulted in additional disclosures.

In June 2013, the FASB issued an update ("ASU 2013-08") to ASC Topic 946, *Financial Services - Investment Companies* ("Topic 946"). ASU 2013-08 amends the guidance in Topic 946 for determining whether an entity qualifies as an investment company and requires certain additional disclosures. ASU 2013-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2013. We are currently evaluating the impact, if any, of ASU 2013-08 on our real estate fund and our consolidated financial statements.

**Critical Accounting Policies**

A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2012 in Management's Discussion and Analysis of Financial Condition. There have been no significant changes to our policies during 2013.

**Overview - continued**

**Leasing Activity:**

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

| | New York | | Washington, DC | Retail Properties | |
|---|---|---|---|---|---|
| (Square feet in thousands) | Office | Retail | Office | Strips | Malls |
| **Quarter Ended June 30, 2013** | | | | | |
| Total square feet leased | 546 | 8 | 275 | 256 | 135 |
| Our share of square feet leased: | 433 | 7 | 232 | 256 | 131 |
| Initial rent (1) | $ 68.76 | $ 160.53 | $ 43.10 | $ 19.12 | $ 32.39 |
| Weighted average lease term (years) | 7.3 | 7.2 | 5.2 | 7.7 | 7.5 |
| Second generation relet space: | | | | | |
| Square feet | 380 | 5 | 169 | 145 | 59 |
| Cash basis: | | | | | |
| Initial rent (1) | $ 67.42 | $ 154.17 | $ 42.88 | $ 19.58 | $ 26.20 |
| Prior escalated rent | $ 61.16 | $ 141.79 | $ 43.38 | $ 17.75 | $ 24.65 |
| Percentage increase (decrease) | 10.2% | 8.7% | (1.1%) | 10.3% | 6.3% |
| GAAP basis: | | | | | |
| Straight-line rent (2) | $ 64.69 | $ 157.32 | $ 42.08 | $ 20.11 | $ 26.82 |
| Prior straight-line rent | $ 55.88 | $ 129.26 | $ 40.93 | $ 17.04 | $ 24.15 |
| Percentage increase | 15.8% | 21.7% | 2.8% | 18.0% | 11.1% |
| Tenant improvements and leasing commissions: | | | | | |
| Per square foot | $ 52.21 | $ 49.05 | $ 28.62 | $ 10.87 | $ 28.27 |
| Per square foot per annum | $ 7.15 | $ 6.81 | $ 5.50 | $ 1.41 | $ 3.77 |
| Percentage of initial rent | 10.4% | 4.2% | 12.8% | 7.4% | 11.6% |
| **Six Months Ended June 30, 2013:** | | | | | |
| Total square feet leased | 1,455 | 40 | 572 | 900 | 294 |
| Our share of square feet leased: | 1,276 | 33 | 491 | 900 | 270 |
| Initial rent (1) | $ 60.47 | $ 253.38 | $ 41.82 | $ 15.67 | $ 31.30 |
| Weighted average lease term (years) | 12.5 | 7.6 | 5.0 | 6.1 | 7.9 |
| Second generation relet space: | | | | | |
| Square feet | 1,193 | 31 | 334 | 696 | 76 |
| Cash basis: | | | | | |
| Initial rent (1) | $ 60.07 | $ 259.10 | $ 40.64 | $ 14.63 | $ 32.13 |
| Prior escalated rent | $ 57.78 | $ 103.05 | $ 40.25 | $ 13.37 | $ 30.55 |
| Percentage increase | 4.0% | 151.4% | 0.9% | 9.4% | 5.2% |
| GAAP basis: | | | | | |
| Straight-line rent (2) | $ 60.56 | $ 288.10 | $ 39.91 | $ 14.91 | $ 32.85 |
| Prior straight-line rent | $ 52.52 | $ 101.41 | $ 38.36 | $ 13.05 | $ 29.77 |
| Percentage increase | 15.3% | 184.1% | 4.0% | 14.3% | 10.3% |
| Tenant improvements and leasing commissions: | | | | | |
| Per square foot | $ 61.16 | $ 127.61 | $ 34.89 | $ 4.07 | $ 21.11 |
| Per square foot per annum: | $ 4.89 | $ 16.79 | $ 6.98 | $ 0.67 | $ 2.67 |
| Percentage of initial rent | 8.1% | 6.6% | 16.7%(3) | 4.3% | 8.5% |

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

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

**(3)** Excluding two leases with unusually high tenant improvement allowances in place of free rent, the tenant improvements and leasing commissions were 12.0% of initial rent.

**Square footage (in service) and Occupancy as of June 30, 2013:**

| (Square feet in thousands) | Number of Properties | Square Feet (in service) Total Portfolio | Square Feet (in service) Our Share | Occupancy % |
|---|---|---|---|---|
| New York: | | | | |
| Office | 31 | 19,835 | 16,848 | 95.9% |
| Retail | 50 | 2,225 | 2,069 | 96.3% |
| Alexander's | 6 | 2,179 | 706 | 99.2% |
| Hotel Pennsylvania | 1 | 1,400 | 1,400 | |
| Residential (1,655 units) | 4 | 1,523 | 870 | 96.5% |
| | | 27,162 | 21,893 | 96.1% |
| Washington, DC: | | | | |
| Office, excluding the Skyline Properties | 51 | 13,307 | 10,919 | 87.0% |
| Skyline Properties | 8 | 2,643 | 2,643 | 54.8% |
| Total Office | 59 | 15,950 | 13,562 | 80.7% |
| Residential (2,414 units) | 7 | 2,597 | 2,455 | 97.1% |
| Other | 7 | 393 | 393 | 100.0% |
| | | 18,940 | 16,410 | 83.6% |
| Total occupancy, excluding the Skyline Properties | | | | 89.2% |
| Retail Properties: | | | | |
| Strip Shopping Centers | 100 | 14,556 | 14,110 | 94.1% |
| Regional Malls | 6 | 5,247 | 3,611 | 93.5% |
| | | 19,803 | 17,721 | 94.0% |
| Other: | | | | |
| Merchandise Mart | 2 | 3,872 | 3,863 | 94.8% |
| 555 California Street | 3 | 1,796 | 1,257 | 93.8% |
| Primarily Warehouses | 5 | 971 | 971 | 47.1% |
| | | 6,639 | 6,091 | |
| Total square feet at June 30, 2013 | | 72,544 | 62,115 | |

**Overview - continued**

**Square footage (in service) and Occupancy as of December 31, 2012:**

| (Square feet in thousands) | Number of properties | Square Feet (in service) Total Portfolio | Square Feet (in service) Our Share | Occupancy % |
|---|---|---|---|---|
| New York: | | | | |
| Office | 31 | 19,729 | 16,751 | 95.9% |
| Retail | 49 | 2,217 | 2,057 | 96.8% |
| Alexander's | 6 | 2,179 | 706 | 99.1% |
| Hotel Pennsylvania | 1 | 1,400 | 1,400 | |
| Residential (1,655 units) | 4 | 1,528 | 873 | 96.9% |
| | | 27,053 | 21,787 | 96.2% |
| Washington, DC: | | | | |
| Office, excluding the Skyline Properties | 51 | 13,463 | 10,994 | 86.3% |
| Skyline Properties | 8 | 2,643 | 2,643 | 60.0% |
| Total Office | 59 | 16,106 | 13,637 | 81.2% |
| Residential (2,414 units) | 7 | 2,599 | 2,457 | 97.9% |
| Other | 7 | 435 | 435 | 100.0% |
| | | 19,140 | 16,529 | 84.1% |
| Total occupancy, excluding the Skyline Properties | | | | 88.8% |
| Retail Properties: | | | | |
| Strip Shopping Centers | 101 | 14,390 | 13,946 | 93.7% |
| Regional Malls | 6 | 5,244 | 3,608 | 92.7% |
| | | 19,634 | 17,554 | 93.5% |
| Other: | | | | |
| Merchandise Mart | 2 | 3,905 | 3,896 | 94.6% |
| 555 California Street | 3 | 1,795 | 1,257 | 93.1% |
| Primarily Warehouses | 5 | 971 | 971 | 55.9% |
| | | 6,671 | 6,124 | |
| Total square feet at December 31, 2012 | | 72,498 | 61,994 | |

**Washington, DC Segment**

For the six months ended June 30, 2013, EBITDA from continuing operations was lower than the prior year's six months by approximately $15,840,000, which is above the range of EBITDA diminution of $5,000,000 to $15,000,000 that we had previously estimated for the full year. We expect that the EBITDA reduction in the first half of 2013 and the expected further reduction in the third quarter will be partially offset by an increase in the fourth quarter and that EBITDA for the full year will be lower than the prior year by approximately $10,000,000 to $15,000,000.

Of the 2,395,000 square feet subject to the effects of the Base Realignment and Closure ("BRAC") statute, 348,000 square feet has been taken out of service for redevelopment and 745,000 square feet has been leased or is pending. The table below summarizes the status of the BRAC space as of June 30, 2013.

| | Rent Per Square Foot | Square Feet | | | |
|---|---|---|---|---|---|
| | | Total | Crystal City | Skyline | Rosslyn |
| Resolved: | | | | | |
| Relet as of June 30, 2013 | $ 39.80 | 531,000 | 383,000 | 88,000 | 60,000 |
| Leases pending | 33.89 | 214,000 | 39,000 | 175,000 | - |
| Taken out of service for redevelopment | | 348,000 | 348,000 | - | - |
| | | 1,093,000 | 770,000 | 263,000 | 60,000 |
| To Be Resolved: | | | | | |
| Vacated as of June 30, 2013 | 37.61 | 940,000 | 513,000 | 341,000 | 86,000 |
| Expiring in: | | | | | |
| 2014 | 32.25 | 292,000 | 91,000 | 201,000 | - |
| 2015 | 43.13 | 70,000 | 65,000 | 5,000 | - |
| | | 1,302,000 | 669,000 | 547,000 | 86,000 |
| Total square feet subject to BRAC | | 2,395,000 | 1,439,000 | 810,000 | 146,000 |

In 2012, due to the rising vacancy rate at the Skyline properties (45.2% at June 30, 2013), primarily from the effects of the BRAC statute; insufficient cash flows to pay current obligations, including interest payments to the lender; and the significant amount of capital required to re-tenant these properties, we requested that the mortgage loan be transferred to the special servicer. In connection therewith, we entered into a forbearance agreement with the special servicer, that provides for interest shortfalls to be deferred and added to the principal balance of the loan and not give rise to a loan default. The forbearance agreement has been amended and extended a number of times, the latest of which extends its maturity through September 1, 2013. As of June 30, 2013, the accrued deferred interest amounted to $47,559,000. We continue to negotiate with the special servicer to restructure the terms of the loan.

**Net Income and EBITDA by Segment for the Three Months Ended June 30, 2013 and 2012**

As a result of certain organizational changes and asset sales in 2012, the Merchandise Mart segment no longer meets the criteria to be a separate reportable segment; accordingly, effective January 1, 2013, the remaining assets have been reclassified to our Other segment. We have also reclassified the prior period segment financial results to conform to the current year presentation. Below is a summary of net income and a reconciliation of net income to EBITDA(1) by segment for the three months ended June 30, 2013 and 2012.

| (Amounts in thousands) | For the Three Months Ended June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Total | New York | Washington, DC | Retail Properties | Toys | Other |
| Property rentals | $ 519,733 | $ 286,844 | $ 112,733 | $ 64,374 | $ - | $ 55,782 |
| Straight-line rent adjustments | 13,789 | 7,533 | 1,231 | 909 | - | 4,116 |
| Amortization of acquired below-market leases, net | 11,672 | 6,944 | 516 | 2,885 | - | 1,327 |
| Total rentals | 545,194 | 301,321 | 114,480 | 68,168 | - | 61,225 |
| Tenant expense reimbursements | 75,659 | 38,785 | 10,666 | 22,028 | - | 4,180 |
| Cleveland Medical Mart development project | 16,990 | - | - | - | - | 16,990 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 16,509 | 20,979 | - | - | - | (4,470) |
| Signage revenue | 8,347 | 8,347 | - | - | - | - |
| Management and leasing fees | 6,435 | 2,854 | 3,459 | 320 | - | (198) |
| Lease termination fees | 7,129 | 5,432 | 182 | 198 | - | 1,317 |
| Other income | 9,595 | 3,254 | 5,530 | 283 | - | 528 |
| Total revenues | 685,858 | 380,972 | 134,317 | 90,997 | - | 79,572 |
| Operating expenses | 261,080 | 157,622 | 48,290 | 34,091 | - | 21,077 |
| Depreciation and amortization | 135,486 | 69,387 | 30,619 | 15,457 | - | 20,023 |
| General and administrative | 54,323 | 8,881 | 6,873 | 5,169 | - | 33,400 |
| Cleveland Medical Mart development project | 15,151 | - | - | - | - | 15,151 |
| Acquisition related costs | 3,350 | - | - | - | - | 3,350 |
| Total expenses | 469,390 | 235,890 | 85,782 | 54,717 | - | 93,001 |
| Operating income (loss) | 216,468 | 145,082 | 48,535 | 36,280 | - | (13,429) |
| (Loss) applicable to Toys | (36,861) | - | - | - | (36,861) | - |
| Income (loss) from partially owned entities | 1,472 | 4,226 | (2,449) | 423 | - | (728) |
| Income from Real Estate Fund | 34,470 | - | - | - | - | 34,470 |
| Interest and other investment income (loss), net | 26,416 | 1,443 | 6 | (48) | - | 25,015 |
| Interest and debt expense | (121,762) | (42,835) | (27,854) | (12,435) | - | (38,638) |
| Net gain on disposition of wholly owned and partially owned assets | 1,005 | - | - | - | - | 1,005 |
| Income (loss) before income taxes | 121,208 | 107,916 | 18,238 | 24,220 | (36,861) | 7,695 |
| Income tax expense | (2,877) | (961) | (805) | (749) | - | (362) |
| Income (loss) from continuing operations | 118,331 | 106,955 | 17,433 | 23,471 | (36,861) | 7,333 |
| Income (loss) from discontinued operations | 63,990 | - | - | 64,136 | - | (146) |
| Net income (loss) | 182,321 | 106,955 | 17,433 | 87,607 | (36,861) | 7,187 |
| Less net income attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (14,930) | (1,381) | - | (13) | - | (13,536) |
| Operating Partnership | (8,849) | - | - | - | - | (8,849) |
| Preferred unit distributions of the Operating Partnership | (348) | - | - | - | - | (348) |
| Net income (loss) attributable to Vornado | 158,194 | 105,574 | 17,433 | 87,594 | (36,861) | (15,546) |
| Interest and debt expense(2) | 179,461 | 54,546 | 31,245 | 13,715 | 37,730 | 42,225 |
| Depreciation and amortization(2) | 182,131 | 74,573 | 35,248 | 16,348 | 33,882 | 22,080 |
| Income tax (benefit) expense (2) | (22,366) | 1,030 | 852 | 749 | (25,697) | 700 |
| EBITDA(1) | $ 497,420 | $ 235,723 (3) | $ 84,778 (4) | $ 118,406 (5) | $ 9,054 | $ 49,459 (6) |

See notes on page 52.

**Net Income and EBITDA by Segment for the Three Months Ended June 30, 2013 and 2012 - continued**

| (Amounts in thousands) | For the Three Months Ended June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Total | New York | Washington, DC | Retail Properties | Toys | Other |
| Property rentals | $ 484,016 | $ 245,948 | $ 118,014 | $ 64,554 | $ - | $ 55,500 |
| Straight-line rent adjustments | 20,647 | 17,065 | 1,258 | 2,276 | - | 48 |
| Amortization of acquired below-market leases, net | 12,570 | 7,623 | 508 | 2,950 | - | 1,489 |
| Total rentals | 517,233 | 270,636 | 119,780 | 69,780 | - | 57,037 |
| Tenant expense reimbursements | 71,409 | 36,985 | 10,862 | 20,986 | - | 2,576 |
| Cleveland Medical Mart development project | 56,304 | - | - | - | - | 56,304 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 16,982 | 23,911 | - | - | - | (6,929) |
| Signage revenue | 4,879 | 4,879 | - | - | - | - |
| Management and leasing fees | 4,546 | 1,113 | 2,384 | 1,068 | - | (19) |
| Lease termination fees | 479 | 233 | 128 | 1 | - | 117 |
| Other income | 6,151 | 576 | 4,968 | 373 | - | 234 |
| Total revenues | 677,983 | 338,333 | 138,122 | 92,208 | - | 109,320 |
| Operating expenses | 243,485 | 143,190 | 47,416 | 33,708 | - | 19,171 |
| Depreciation and amortization | 128,372 | 56,665 | 35,017 | 18,495 | - | 18,195 |
| General and administrative | 46,832 | 6,654 | 6,231 | 6,367 | - | 27,580 |
| Cleveland Medical Mart development project | 53,935 | - | - | - | - | 53,935 |
| Acquisition related costs | 2,559 | - | - | - | - | 2,559 |
| Total expenses | 475,183 | 206,509 | 88,664 | 58,570 | - | 121,440 |
| Operating income (loss) | 202,800 | 131,824 | 49,458 | 33,638 | - | (12,120) |
| (Loss) applicable to Toys | (19,190) | - | - | - | (19,190) | - |
| Income (loss) from partially owned entities | 12,563 | 6,851 | (519) | 294 | - | 5,937 |
| Income from Real Estate Fund | 20,301 | - | - | - | - | 20,301 |
| Interest and other investment (loss) income, net | (49,172) | 1,057 | 29 | 6 | - | (50,264) |
| Interest and debt expense | (124,320) | (36,407) | (27,999) | (16,170) | - | (43,744) |
| Net gain on disposition of wholly owned and partially owned assets | 4,856 | - | - | - | - | 4,856 |
| Income (loss) before income taxes | 47,838 | 103,325 | 20,969 | 17,768 | (19,190) | (75,034) |
| Income tax expense | (7,479) | (1,064) | (852) | - | - | (5,563) |
| Income (loss) from continuing operations | 40,359 | 102,261 | 20,117 | 17,768 | (19,190) | (80,597) |
| Income (loss) from discontinued operations | 17,869 | (32) | 2,956 | 16,254 | - | (1,309) |
| Net income (loss) | 58,228 | 102,229 | 23,073 | 34,022 | (19,190) | (81,906) |
| Less net (income) loss attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (14,721) | (2,998) | - | 97 | - | (11,820) |
| Operating Partnership | (1,337) | - | - | - | - | (1,337) |
| Preferred unit distributions of the Operating Partnership | (3,873) | - | - | - | - | (3,873) |
| Net income (loss) attributable to Vornado | 38,297 | 99,231 | 23,073 | 34,119 | (19,190) | (98,936) |
| Interest and debt expense(2) | 190,942 | 46,413 | 32,549 | 20,102 | 37,293 | 54,585 |
| Depreciation and amortization(2) | 184,028 | 63,664 | 39,656 | 22,131 | 32,505 | 26,072 |
| Income tax (benefit) expense(2) | (5,214) | 1,113 | 1,034 | - | (14,103) | 6,742 |
| EBITDA(1) | $ 408,053 | $ 210,421 (3) | $ 96,312 (4) | $ 76,352 (5) | $ 36,505 | $ (11,537) (6) |

See notes on the following page.

**Notes to preceding tabular information:**

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

**(2)** Interest and debt expense, depreciation and amortization and income tax (benefit) expense in the reconciliation of net income (loss) to EBITDA includes our share of these items from partially owned entities.

**(3)** The elements of "New York" EBITDA are summarized below.

| | For the Three Months Ended June 30, | |
|---|---|---|
| (Amounts in thousands) | 2013 | 2012 |
| Office | $ 158,186 | $ 142,077 |
| Retail | 57,230 | 45,577 |
| Alexander's (decrease due to sale of Kings Plaza in November 2012) | 10,213 | 13,026 |
| Hotel Pennsylvania | 10,094 | 9,741 |
| Total New York | $ 235,723 | $ 210,421 |

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

| | For the Three Months Ended June 30, | |
|---|---|---|
| (Amounts in thousands) | 2013 | 2012 |
| Office, excluding the Skyline Properties [(a)] | $ 66,136 | $ 74,953 |
| Skyline properties | 7,543 | 10,661 |
| Total Office | 73,679 | 85,614 |
| Residential | 11,099 | 10,698 |
| Total Washington, DC | $ 84,778 | $ 96,312 |

---

**(a)** 2012 includes EBITDA from discontinued operations and other items that affect comparability, aggregating $5,423. Excluding these items, EBITDA was $69,530.

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

| | For the Three Months Ended June 30, | |
|---|---|---|
| (Amounts in thousands) | 2013 | 2012 |
| Strip shopping centers[(a)] | $ 101,529 | $ 52,268 |
| Regional malls[(b)] | 16,877 | 24,084 |
| Total Retail properties | $ 118,406 | $ 76,352 |

---

**(a)** Includes EBITDA from discontinued operations, net gains on sale of real estate, and other items that affect comparability, aggregating $64,506 and $15,631 for the three months ended June 30, 2013 and 2012, respectively. Excluding these items, EBITDA was $37,023 and $36,637, respectively.

**(b)** 2012 includes EBITDA from discontinued operations, net gains on sale of real estate, and other items that affect comparability, aggregating $8,449. Excluding these items, EBITDA was $15,635.

Net Income and EBITDA by Segment for the Three Months Ended June 30, 2013 and 2012 - continued

**Notes to preceding tabular information - continued:**

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

| (Amounts in thousands) | For the Three Months Ended June 30, 2013 | 2012 |
|---|---|---|
| Our share of Real Estate Fund: | | |
| (Loss) income before net realized/unrealized gains | $ (1,713) | $ 170 |
| Net unrealized gains | 8,398 | 5,284 |
| Carried interest | 13,426 | 2,541 |
| Total | 20,111 | 7,995 |
| Merchandise Mart Building, 7 West 34th Street and trade shows | 22,448 | 17,349 |
| 555 California Street | 11,022 | 10,377 |
| LNR[(a)] | - | 11,671 |
| Lexington[(b)] | - | 7,703 |
| Other investments | 8,014 | 11,523 |
| | 61,595 | 66,618 |
| Corporate general and administrative expenses[(c)] | (24,831) | (21,812) |
| Investment income and other, net[(c)] | 16,709 | 15,294 |
| Income (loss) from the mark-to-market of J.C. Penney derivative position | 9,065 | (58,732) |
| Acquisition related costs | (3,350) | (2,559) |
| Severance costs (primarily reduction in force at the Merchandise Mart) | (1,542) | - |
| Net gain on sale of residential condominiums | 1,005 | 1,274 |
| Merchandise Mart discontinued operations | 5 | (6,410) |
| Net income attributable to noncontrolling interests in the Operating Partnership | (8,849) | (1,337) |
| Preferred unit distributions of the Operating Partnership | (348) | (3,873) |
| | $ 49,459 | $ (11,537) |

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**(a)** On April 22, 2013, LNR was sold.

**(b)** In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale.

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

**EBITDA by Region**

Below is a summary of the percentages of EBITDA by geographic region (excluding discontinued operations and other gains and losses that affect comparability), from our New York, Washington, DC and Retail Properties segments.

| | For the Three Months Ended June 30, 2013 | 2012 |
|---|---|---|
| **Region:** | | |
| New York City metropolitan area | 74% | 70% |
| Washington, DC / Northern Virginia metropolitan area | 23% | 26% |
| Puerto Rico | 1% | 2% |
| California | 1% | 1% |
| Other geographies | 1% | 1% |
| | 100% | 100% |

**Results of Operations – Three Months Ended June 30, 2013 Compared to June 30, 2012**

Revenues

Our revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of acquired below-market leases, net of above-market leases and fee income, were $685,858,000 in the three months ended June 30, 2013, compared to $677,983,000 in the prior year's quarter, an increase of $7,875,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to: | Total | New York | Washington, DC | Retail Properties | Other |
|---|---|---|---|---|---|
| **Property rentals:** | | | | | |
| Acquisitions and other | $ 20,977 | $ 23,400 | $ - | $ (2,423) | $ - |
| Properties taken out of service for redevelopment | (1,309) | (296) | 90 | (1,018) | (85) |
| Hotel Pennsylvania | 2,159 | 2,159 | - | - | - |
| Trade Shows | 1,229 | - | - | - | 1,229 |
| Same store operations | 4,905 | 5,422 | (5,390) | 1,829 | 3,044 |
| | 27,961 | 30,685 | (5,300) | (1,612) | 4,188 |
| **Tenant expense reimbursements:** | | | | | |
| Acquisitions and other | 2,597 | 1,393 | 95 | 1,109 | - |
| Properties taken out of service for redevelopment | (788) | (66) | (60) | (661) | (1) |
| Same store operations | 2,441 | 473 | (231) | 594 | 1,605 |
| | 4,250 | 1,800 | (196) | 1,042 | 1,604 |
| **Cleveland Medical Mart development project** | (39,314)**(1)** | - | - | - | (39,314)**(1)** |
| **Fee and other income:** | | | | | |
| BMS cleaning fees | (473) | (2,932) | - | - | 2,459 **(2)** |
| Signage revenue | 3,468 | 3,468 | - | - | - |
| Management and leasing fees | 1,889 | 1,741 | 1,075 | (748) | (179) |
| Lease termination fees | 6,650 | 5,199 | 54 | 197 | 1,200 |
| Other income | 3,444 | 2,678 | 562 | (90) | 294 |
| | 14,978 | 10,154 | 1,691 | (641) | 3,774 |
| Total increase (decrease) in revenues | $ 7,875 | $ 42,639 | $ (3,805) | $ (1,211) | $ (29,748) |

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**(1)** Primarily due to the project nearing completion. This decrease in revenue is offset by a decrease in development costs expensed in the period. See note (3) on page 55.

**(2)** Represents the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 55.

**Results of Operations – Three Months Ended June 30, 2013 Compared to June 30, 2012 - continued**

Expenses

Our expenses, which consist primarily of operating, depreciation and amortization and general and administrative expenses, were $469,390,000 in the three months ended June 30, 2013, compared to $475,183,000 in the prior year's quarter, a decrease of $5,793,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to: | Total | New York | Washington, DC | Retail Properties | Other |
|---|---|---|---|---|---|
| **Operating:** | | | | | |
| Acquisitions and other | $ 9,297 | $ 9,557 | $ - | $ (260) | $ - |
| Properties taken out of service for redevelopment | (3,503) | (346) | (134) | (2,441) | (582) |
| Non-reimbursable expenses, including bad debt reserves | 6,636 | 3,201 | 693 | 2,006 | 736 |
| Hotel Pennsylvania | 1,773 | 1,773 | - | - | - |
| Trade Shows | 856 | - | - | - | 856 |
| BMS expenses | (506) | (2,965) | - | - | 2,459 **(2)** |
| Same store operations | 3,042 | 3,212 | 315 | 1,078 | (1,563) |
| | 17,595 | 14,432 | 874 | 383 | 1,906 |
| **Depreciation and amortization:** | | | | | |
| Acquisitions and other | 13,195 | 13,771 | - | (576) | - |
| Properties taken out of service for redevelopment | (6,153) | (201) | (3,621) | (2,413) | 82 |
| Same store operations | 72 | (848) | (777) | (49) | 1,746 |
| | 7,114 | 12,722 | (4,398) | (3,038) | 1,828 |
| **General and administrative:** | | | | | |
| Mark-to-market of deferred compensation plan liability **(1)** | 2,468 | - | - | - | 2,468 |
| Severance costs (primarily reduction in force at the Merchandise Mart) | 1,542 | - | - | - | 1,542 |
| Same store operations | 3,481 | 2,227 | 642 | (1,198) | 1,810 |
| | 7,491 | 2,227 | 642 | (1,198) | 5,820 |
| **Cleveland Medical Mart development project** | (38,784)**(3)** | - | - | - | (38,784)**(3)** |
| **Acquisition related costs** | 791 | - | - | - | 791 |
| Total (decrease) increase in expenses | $ (5,793) | $ 29,381 | $ (2,882) | $ (3,853) | $ (28,439) |

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

**(2)** Represents the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 54.

**(3)** Primarily due to the project nearing completion. This decrease in expense is offset by the decrease in development revenue in the period. See note (1) on page 54.

(Loss) Income Applicable to Toys

In the three months ended June 30, 2013, we recognized a net loss of $36,861,000 from our investment in Toys, comprised of $38,708,000 for our 32.6% share of Toys' net loss, partially offset by $1,847,000 of management fee income. In the three months ended June 30, 2012, we recognized a net loss of $19,190,000 from our investment in Toys, comprised of $21,561,000 for our 32.5% share of Toys' net loss, partially offset by $2,371,000 of management fee income.

Income from Partially Owned Entities

Summarized below are the components of income (loss) from partially owned entities for the three months ended June 30, 2013 and 2012.

| (Amounts in thousands) | Percentage Ownership at June 30, 2013 | For the Three Months Ended June 30, 2013 | 2012 |
|---|---|---|---|
| **Equity in Net Income (Loss):** | | | |
| Alexander's (decrease due to sale of Kings Plaza in November 2012) | 32.4% | $ 5,751 | $ 7,848 |
| India real estate ventures | 4.0%-36.5% | (414) | (3,815) |
| Partially owned office buildings: | | | |
| 280 Park Avenue | 49.5% | (2,021) | (1,955) |
| Warner Building | 55.0% | (1,996) | (1,589) |
| 666 Fifth Avenue Office Condominium | 49.5% | 1,899 | 1,785 |
| 330 Madison Avenue | 25.0% | 1,185 | 18 |
| Rosslyn Plaza | 43.7%-50.4% | (1,005) | 145 |
| 1101 17th Street | 55.0% | 236 | 646 |
| West 57th Street Properties | 50.0% | 196 | 252 |
| One Park Avenue | 30.3% | (83) | 303 |
| Fairfax Square | 20.0% | (18) | (40) |
| Other partially owned office buildings | Various | 565 | 555 |
| Other investments: | | | |
| Independence Plaza | 50.1% | (1,118) | 1,733 |
| Monmouth Mall | 50.0% | 426 | 298 |
| Lexington (1) | n/a | - | (236) |
| LNR (2) | n/a | - | 9,469 |
| Downtown Crossing, Boston (3) | n/a | 16 | (500) |
| Other investments (4) | Various | (2,147) | (2,354) |
| | | $ 1,472 | $ 12,563 |

**(1)** In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale.

**(2)** On April 22, 2013, LNR was sold for $1.053 billion. We owned 26.2% of LNR and received net proceeds of approximately $241,000.

**(3)** On April 24, 2013, the joint venture sold the site in Downtown Crossing, Boston, and we received approximately $45,000 for our 50% interest.

**(4)** Includes interests in 85 10th Avenue, Fashion Centre Mall, 50-70 West 93rd Street and others.

**Results of Operations – Three Months Ended June 30, 2013 Compared to June 30, 2012 - continued**

Income from Real Estate Fund

Below are the components of the income from our Real Estate Fund for the three months ended June 30, 2013 and 2012.

| (Amounts in thousands) | For the Three Months Ended June 30, | |
|---|---|---|
| | 2013 | 2012 |
| Net investment income (loss) | $ 877 | $ (834) |
| Net unrealized gains | 33,593 | 21,135 |
| Income from Real Estate Fund | 34,470 | 20,301 |
| Less (income) attributable to noncontrolling interests | (14,359) | (12,306) |
| Income from Real Estate Fund attributable to Vornado (1) | $ 20,111 | $ 7,995 |

**(1)** Excludes management, leasing and development fees of $827 and $717 for the three months ended June 30, 2013 and 2012, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

Interest and Other Investment Income (Loss), net

Interest and other investment income (loss), net was income of $26,416,000 in the three months ended June 30, 2013, compared to a loss of $49,172,000 in the prior year's quarter, an increase of $75,588,000. This increase resulted from:

| (Amounts in thousands) | |
|---|---|
| J.C. Penney derivative position ($9,065 mark-to-market gain in the current year's quarter, compared to a $58,732 mark-to-market loss in the prior year's quarter) | $ 67,797 |
| Income from prepayment penalties in connection with the repayment of a mezzanine loan | 5,267 |
| Increase in the value of investments in our deferred compensation plan (offset by a corresponding increase in the liability for plan assets in general and administrative expenses) | 2,468 |
| Other, net | 56 |
| | $ 75,588 |

Interest and Debt Expense

Interest and debt expense was $121,762,000 in the three months ended June 30, 2013, compared to $124,320,000 in the prior year's quarter, a decrease of $2,558,000. This decrease was primarily due to $8,887,000 of higher capitalized interest in the current year's quarter, partially offset by interest expense of $5,017,000 from the financing of the retail condominium at 666 Fifth Avenue and the Outlets at Bergen Town Center in the first quarter of 2013 and $1,877,000 from the refinancing of 1290 Avenue of the Americas in November 2012.

Net Gain (Loss) on Disposition of Wholly Owned and Partially Owned Assets

In the three months ended June 30, 2013, we recognized a $1,005,000 net gain from the sale of residential condominiums, compared to a $4,856,000 net gain in the prior year's quarter, primarily from the sale of residential condominiums and marketable securities.

Income Tax Expense

Income tax expense was $2,877,000 in the three months ended June 30, 2013, compared to $7,479,000 in the prior year's quarter, a decrease of $4,602,000. This decrease resulted primarily from a $4,277,000 income tax provision in the prior year's quarter applicable to a taxable REIT subsidiary that was liquidated in the fourth quarter of 2012.

Income from Discontinued Operations

We have reclassified the revenues and expenses of the properties that were sold and that are currently held for sale to "income from discontinued operations" and the related assets and liabilities to "assets related to discontinued operations" and "liabilities related to discontinued operations" for all the periods presented in the accompanying financial statements. The table below sets forth the combined results of assets related to discontinued operations for the three months ended June 30, 2013 and 2012.

| | For the Three Months Ended June 30, | |
|---|---|---|
| (Amounts in thousands) | **2013** | **2012** |
| Total revenues | $ 4,668 | $ 45,286 |
| Total expenses | 3,850 | 30,802 |
| | 818 | 14,484 |
| Net gains on sale of: | | |
| 901 Market Street, Philadelphia | 33,058 | - |
| The Plant | 32,169 | - |
| Other real estate | 438 | 16,896 |
| Impairment losses | (2,493) | (13,511) |
| Income from discontinued operations | $ 63,990 | $ 17,869 |

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was $14,930,000 in the three months ended June 30, 2013, compared to $14,721,000 in the prior year's quarter, an increase of $209,000.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership

Net income attributable to noncontrolling interests in the Operating Partnership was $8,849,000 in the three months ended June 30, 2013, compared to $1,337,000 in the prior year's quarter, an increase of $7,512,000. This increase resulted primarily from higher net income subject to allocation to unitholders.

Preferred Unit Distributions of the Operating Partnership

Preferred unit distributions of the Operating Partnership were $348,000 in the three months ended June 30, 2013, compared to $3,873,000 in the prior year's quarter, a decrease of $3,525,000. This decrease resulted from the redemption of the 6.875% Series D-15 cumulative redeemable preferred units in May 2013, and 7.0% Series D-10 and 6.75% Series D-14 cumulative redeemable preferred units in July 2012.

Preferred Share Dividends

Preferred share dividends were $20,368,000 in the three months ended June 30, 2013, compared to $17,787,000 in the prior year's quarter, an increase of $2,581,000. This increase resulted primarily from the issuance of $300,000,000 of 5.70% Series K cumulative redeemable preferred shares in July 2012, and $300,000,000 of 5.40% Series L cumulative redeemable preferred shares in January 2013, partially offset by the redemption of $262,500,000 of 6.75% Series F and Series H cumulative redeemable preferred shares in February 2013 and $75,000,000 of 7.0% Series E cumulative redeemable preferred shares in August 2012.

Preferred Unit and Share Redemptions

In the three months ended June 30, 2013, we recognized an $8,100,000 discount from the redemption of all of the 6.875% Series D-15 cumulative redeemable preferred units.

Same Store EBITDA

Same store EBITDA represents EBITDA from property level operations which are owned by us in both the current and prior year reporting periods. Same store EBITDA excludes segment-level overhead expenses, which are expenses that we do not consider to be property-level expenses, as well as other non-operating items. We present same store EBITDA on both a GAAP basis and a cash basis, which excludes income from the straight-lining of rents, amortization of below-market leases, net of above-market leases and other non-cash adjustments. We present these non-GAAP measures to (i) facilitate meaningful comparisons of the operational performance of our properties and segments, (ii) make decisions on whether to buy, sell or refinance properties, and (iii) compare the performance of our properties and segments to those of our peers. Same store EBITDA should not be considered as an alternative to net income or cash flow from operations and may not be comparable to similarly titled measures employed by other companies.

Below are reconciliations of EBITDA to the same store EBITDA on a GAAP basis for each of our segments for the three months ended June 30, 2013, compared to the three months ended June 30, 2012.

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|---|---|---|
| EBITDA for the three months ended June 30, 2013 | $ 235,723 | $ 84,778 | $ 118,406 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 8,881 | 6,873 | 5,169 |
| Less EBITDA from: | | | |
| Acquisitions | (14,810) | - | - |
| Dispositions, including net gains on sale | (2) | 27 | (64,466) |
| Properties taken out-of-service for redevelopment | (4,900) | (1,066) | (916) |
| Other non-operating (income) expense | (5,677) | 422 | 839 |
| GAAP basis same store EBITDA for the three months ended June 30, 2013 | $ 219,215 | $ 91,034 | $ 59,032 |
| | | | |
| EBITDA for the three months ended June 30, 2012 | $ 210,421 | $ 96,312 | $ 76,352 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 6,654 | 6,231 | 6,367 |
| Less EBITDA from: | | | |
| Acquisitions | - | - | - |
| Dispositions, including net gains on sale | (2,936) | (5,423) | (22,368) |
| Properties taken out-of-service for redevelopment | (5,123) | (1,450) | 152 |
| Other non-operating expense (income) | 873 | 640 | (3,265) |
| GAAP basis same store EBITDA for the three months ended June 30, 2012 | $ 209,889 | $ 96,310 | $ 57,238 |
| | | | |
| Increase (decrease) in GAAP basis same store EBITDA - Three months ended June 30, 2013 and June 30, 2012[(1)] | $ 9,326 | $ (5,276) | $ 1,794 |
| | | | |
| % increase (decrease) in GAAP basis same store EBITDA | 4.4% | (5.5%) | 3.1% |

(1) See notes on following page

Notes to preceding tabular information

**New York:**

The $9,326,000 increase in New York GAAP basis same store EBITDA resulted primarily from an increase in Office and Retail GAAP basis same store EBITDA of $7,687,000 and $1,223,000, respectively. The $7,687,000 increase in Office GAAP basis same store EBITDA resulted primarily from an increase in (i) rental revenue of $4,250,000 (due to a $3.97 increase in average annual rents per square foot to $56.60 from $52.63, partially offset by a 70 basis point decrease in average same store occupancy to 95.6% from 96.3%), and (ii) signage revenue and management and leasing fees of $4,757,000, partially offset by (iii) higher operating expenses, net of reimbursements. The $1,223,000 increase in Retail GAAP basis same store EBITDA resulted primarily from an increase in rental revenue of $1,172,000 (due to a $4.97 increase in average annual rents per square foot to $118.22 from $113.25).

**Washington, DC:**

The $5,276,000 decrease in Washington, DC GAAP basis same store EBITDA resulted primarily from a decrease in rental revenue of $5,390,000, primarily due to a 460 basis point decrease in office average same store occupancy to 80.1% from 84.7%, a significant portion of which resulted from the effects of the BRAC statute (see page 49).

**Retail Properties:**

The $1,794,000 increase in Retail Properties GAAP basis same store EBITDA resulted primarily from an increase in Strips GAAP basis same store EBITDA of $1,576,000, which resulted primarily from higher rental revenue of $1,423,000, due to a 140 basis point increase in average same store occupancy to 93.0% from 91.6%.

**Results of Operations – Three Months Ended June 30, 2013 Compared to June 30, 2012 - continued**

Reconciliation of GAAP basis Same Store EBITDA to Cash basis Same Store EBITDA

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|---|---|---|
| GAAP basis same store EBITDA for the three months ended June 30, 2013 | $ 219,215 | $ 91,034 | $ 59,032 |
| Less: Adjustments for straight line rents, amortization of acquired below-market leases, net, and other non-cash adjustments | (25,862) | (2,597) | (3,216) |
| Cash basis same store EBITDA for the three months ended June 30, 2013 | $ 193,353 | $ 88,437 | $ 55,816 |
| GAAP basis same store EBITDA for the three months ended June 30, 2012 | $ 209,889 | $ 96,310 | $ 57,238 |
| Less: Adjustments for straight line rents, amortization of acquired below-market leases, net, and other non-cash adjustments | (32,142) | (2,360) | (3,654) |
| Cash basis same store EBITDA for the three months ended June 30, 2012 | $ 177,747 | $ 93,950 | $ 53,584 |
| Increase (decrease) in Cash basis same store EBITDA - Three months ended June 30, 2013 vs. June 30, 2012 | $ 15,606 | $ (5,513) | $ 2,232 |
| % increase (decrease) in Cash basis same store EBITDA | 8.8% | (5.9%) | 4.2% |

**Net Income and EBITDA by Segment for the Six Months Ended June 30, 2013 and 2012**

As a result of certain organizational changes and asset sales in 2012, the Merchandise Mart segment no longer meets the criteria to be a separate reportable segment; accordingly, effective January 1, 2013, the remaining assets have been reclassified to our Other segment. We have also reclassified the prior period segment financial results to conform to the current year presentation. Below is a summary of net income and a reconciliation of net income to EBITDA[1] by segment for the six months ended June 30, 2013 and 2012.

| (Amounts in thousands) | For the Six Months Ended June 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Total | New York | Washington, DC | Retail Properties | Toys | Other |
| Property rentals | $ 1,018,247 | $ 561,494 | $ 225,005 | $ 128,785 | $ - | $ 102,963 |
| Straight-line rent adjustments | 32,297 | 17,859 | 4,008 | 2,367 | - | 8,063 |
| Amortization of acquired below-market leases, net | 28,506 | 19,033 | 1,022 | 5,775 | - | 2,676 |
| Total rentals | 1,079,050 | 598,386 | 230,035 | 136,927 | - | 113,702 |
| Tenant expense reimbursements | 152,415 | 81,456 | 20,802 | 42,404 | - | 7,753 |
| Cleveland Medical Mart development project | 29,133 | - | - | - | - | 29,133 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 33,173 | 42,001 | - | - | - | (8,828) |
| Signage revenue | 14,828 | 14,828 | - | - | - | - |
| Management and leasing fees | 11,693 | 4,918 | 6,266 | 799 | - | (290) |
| Lease termination fees | 67,155 | 5,490 | 550 | 59,797 | - | 1,318 |
| Other income | 18,390 | 3,969 | 11,395 | 859 | - | 2,167 |
| Total revenues | 1,405,837 | 751,048 | 269,048 | 240,786 | - | 144,955 |
| Operating expenses | 520,953 | 317,853 | 95,612 | 68,090 | - | 39,398 |
| Depreciation and amortization | 277,570 | 145,621 | 61,569 | 32,177 | - | 38,203 |
| General and administrative | 108,905 | 17,703 | 13,798 | 10,584 | - | 66,820 |
| Cleveland Medical Mart development project | 26,525 | - | - | - | - | 26,525 |
| Acquisition related costs | 3,951 | - | - | - | - | 3,951 |
| Total expenses | 937,904 | 481,177 | 170,979 | 110,851 | - | 174,897 |
| Operating income (loss) | 467,933 | 269,871 | 98,069 | 129,935 | - | (29,942) |
| (Loss) applicable to Toys | (35,102) | - | - | - | (35,102) | - |
| Income (loss) from partially owned entities | 22,238 | 9,831 | (4,542) | 1,324 | - | 15,625 |
| Income from Real Estate Fund | 51,034 | - | - | - | - | 51,034 |
| Interest and other investment (loss) income, net | (22,658) | 2,608 | 82 | 4 | - | (25,352) |
| Interest and debt expense | (243,650) | (83,453) | (56,104) | (24,076) | - | (80,017) |
| Net loss on disposition of wholly owned and partially owned assets | (35,719) | - | - | - | - | (35,719) |
| Income (loss) before income taxes | 204,076 | 198,857 | 37,505 | 107,187 | (35,102) | (104,371) |
| Income tax expense | (3,950) | (1,233) | (1,183) | (749) | - | (785) |
| Income (loss) from continuing operations | 200,126 | 197,624 | 36,322 | 106,438 | (35,102) | (105,156) |
| Income from discontinued operations | 271,122 | - | - | 270,849 | - | 273 |
| Net income (loss) | 471,248 | 197,624 | 36,322 | 377,287 | (35,102) | (104,883) |
| Less net income attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (26,216) | (2,962) | - | (109) | - | (23,145) |
| Operating Partnership | (22,782) | - | - | - | - | (22,782) |
| Preferred unit distributions of the Operating Partnership | (1,134) | - | - | - | - | (1,134) |
| Net income (loss) attributable to Vornado | 421,116 | 194,662 | 36,322 | 377,178 | (35,102) | (151,944) |
| Interest and debt expense[2] | 368,241 | 104,235 | 62,998 | 27,938 | 80,912 | 92,158 |
| Depreciation and amortization[2] | 376,316 | 152,986 | 70,396 | 34,867 | 71,556 | 46,511 |
| Income tax expense[2] | 38,393 | 1,377 | 1,306 | 749 | 33,649 | 1,312 |
| EBITDA[1] | $ 1,204,066 | $ 453,260 (3) | $ 171,022 (4) | $ 440,732 (5) | $ 151,015 | $ (11,963)(6) |

See notes on page 64.

**Net Income and EBITDA by Segment for the Six Months Ended June 30, 2013 and 2012 - continued**

| (Amounts in thousands) | For the Six Months Ended June 30, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Total | New York | Washington, DC | Retail Properties | Toys | Other |
| Property rentals | $ 958,447 | $ 479,884 | $ 240,818 | $ 129,146 | $ - | $ 108,599 |
| Straight-line rent adjustments | 41,966 | 34,194 | 3,115 | 3,580 | - | 1,077 |
| Amortization of acquired below-market leases, net | 26,313 | 15,318 | 1,031 | 7,107 | - | 2,857 |
| Total rentals | 1,026,726 | 529,396 | 244,964 | 139,833 | - | 112,533 |
| Tenant expense reimbursements | 141,906 | 73,697 | 20,870 | 41,962 | - | 5,377 |
| Cleveland Medical Mart development project | 111,363 | - | - | - | - | 111,363 |
| Fee and other income: | | | | | | |
| BMS cleaning fees | 32,492 | 46,558 | - | - | - | (14,066) |
| Signage revenue | 9,469 | 9,469 | - | - | - | - |
| Management and leasing fees | 9,300 | 2,221 | 5,167 | 1,904 | - | 8 |
| Lease termination fees | 890 | 256 | 128 | 1 | - | 505 |
| Other income | 14,164 | 2,333 | 10,558 | 714 | - | 559 |
| Total revenues | 1,346,310 | 663,930 | 281,687 | 184,414 | - | 216,279 |
| Operating expenses | 489,462 | 288,862 | 93,618 | 68,189 | - | 38,793 |
| Depreciation and amortization | 259,767 | 110,424 | 77,570 | 36,256 | - | 35,517 |
| General and administrative | 102,122 | 15,241 | 13,181 | 12,700 | - | 61,000 |
| Cleveland Medical Mart development project | 106,696 | - | - | - | - | 106,696 |
| Acquisition related costs | 3,244 | - | - | - | - | 3,244 |
| Total expenses | 961,291 | 414,527 | 184,369 | 117,145 | - | 245,250 |
| Operating income (loss) | 385,019 | 249,403 | 97,318 | 67,269 | - | (28,971) |
| Income applicable to Toys | 97,281 | - | - | - | 97,281 | - |
| Income (loss) from partially owned entities | 32,223 | 11,036 | (2,389) | 698 | - | 22,878 |
| Income from Real Estate Fund | 32,063 | - | - | - | - | 32,063 |
| Interest and other investment (loss) income, net | (33,507) | 2,109 | 73 | 20 | - | (35,709) |
| Interest and debt expense | (254,379) | (72,548) | (57,097) | (32,522) | - | (92,212) |
| Net gain on disposition of wholly owned and partially owned assets | 4,856 | - | - | - | - | 4,856 |
| Income (loss) before income taxes | 263,556 | 190,000 | 37,905 | 35,465 | 97,281 | (97,095) |
| Income tax expense | (14,304) | (1,665) | (1,302) | - | - | (11,337) |
| Income (loss) from continuing operations | 249,252 | 188,335 | 36,603 | 35,465 | 97,281 | (108,432) |
| Income (loss) from discontinued operations | 89,240 | (640) | 4,542 | 26,473 | - | 58,865 |
| Net income (loss) | 338,492 | 187,695 | 41,145 | 61,938 | 97,281 | (49,567) |
| Less net (income) loss attributable to noncontrolling interests in: | | | | | | |
| Consolidated subsidiaries | (24,318) | (5,174) | - | 211 | - | (19,355) |
| Operating Partnership | (16,608) | - | - | - | - | (16,608) |
| Preferred unit distributions of the Operating Partnership | (7,747) | - | - | - | - | (7,747) |
| Net income (loss) attributable to Vornado | 289,819 | 182,521 | 41,145 | 62,149 | 97,281 | (93,277) |
| Interest and debt expense(2) | 384,024 | 93,471 | 66,206 | 40,540 | 68,862 | 114,945 |
| Depreciation and amortization(2) | 375,201 | 125,575 | 87,916 | 44,406 | 67,211 | 50,093 |
| Income tax expense(2) | 46,226 | 1,806 | 1,557 | - | 29,100 | 13,763 |
| EBITDA(1) | $ 1,095,270 | $ 403,373 (3) | $ 196,824 (4) | $ 147,095 (5) | $ 262,454 | $ 85,524 (6) |

See notes on the following page.

**Notes to preceding tabular information:**

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

**(2)** Interest and debt expense, depreciation and amortization and income tax (benefit) expense in the reconciliation of net income (loss) to EBITDA includes our share of these items from partially owned entities.

**(3)** The elements of "New York" EBITDA are summarized below.

| | For the Six Months Ended June 30, | |
|---|---|---|
| (Amounts in thousands) | 2013 | 2012 |
| Office | $ 304,482 | $ 277,257 |
| Retail | 117,612 | 90,497 |
| Alexander's (decrease due to sale of Kings Plaza in November 2012) | 20,754 | 26,397 |
| Hotel Pennsylvania | 10,412 | 9,222 |
| Total New York | $ 453,260 | $ 403,373 |

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| (Amounts in thousands) | 2013 | 2012 |
| Office, excluding the Skyline Properties [(a)] | $ 133,243 | $ 153,287 |
| Skyline properties | 15,705 | 22,191 |
| Total Office | 148,948 | 175,478 |
| Residential | 22,074 | 21,346 |
| Total Washington, DC | $ 171,022 | $ 196,824 |

**(a)** 2012 includes EBITDA from discontinued operations and other items that affect comparability, aggregating $9,962. Excluding these items, EBITDA was $143,325.

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

| | For the Six Months Ended June 30, | |
|---|---|---|
| (Amounts in thousands) | 2013 | 2012 |
| Strip shopping centers[(a)] | $ 204,890 | $ 99,176 |
| Regional malls[(b)] | 235,842 | 47,919 |
| Total Retail properties | $ 440,732 | $ 147,095 |

**(a)** Includes income from discontinued operations, net gains on sale of real estate, and other items that affect comparability, aggregating $130,784 and $26,093 for the six months ended June 30, 2013 and 2012, respectively. Excluding these items, EBITDA was $74,106 and $73,083, respectively.

**(b)** Includes income from discontinued operations, net gains on sale of real estate, and other items that affect comparability, aggregating $203,090 and $16,728 for the six months ended June 30, 2013 and 2012, respectively. Excluding these items, EBITDA was $32,752 and $31,191, respectively.

**Net Income and EBITDA by Segment for the Six Months Ended June 30, 2013 and 2012 - continued**

**Notes to preceding tabular information - continued:**

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

| (Amounts in thousands) | For the Six Months Ended June 30, 2013 | 2012 |
|---|---|---|
| Our share of Real Estate Fund: | | |
| (Loss) income before net realized/unrealized gains | $ (251) | $ 2,288 |
| Net unrealized gains | 11,777 | 6,995 |
| Carried interest | 15,609 | 2,541 |
| Total | 27,135 | 11,824 |
| Merchandise Mart Building, 7 West 34th Street and trade shows | 37,161 | 32,649 |
| 555 California Street | 21,651 | 20,692 |
| LNR[(a)] | 20,443 | 27,233 |
| Lexington[(b)] | 6,931 | 16,921 |
| Other investments | 12,890 | 20,823 |
| | 126,211 | 130,142 |
| Corporate general and administrative expenses[(c)] | (47,587) | (44,129) |
| Investment income and other, net[(c)] | 28,045 | 27,628 |
| Non-cash impairment loss on J.C. Penney common shares | (39,487) | - |
| Loss on sale of J.C. Penney common shares | (36,800) | - |
| Loss from the mark-to-market of J.C. Penney derivative position | (13,475) | (57,687) |
| Severance costs (primarily reduction in force at the Merchandise Mart) | (4,154) | (506) |
| Acquisition related costs | (3,951) | (3,244) |
| Merchandise Mart discontinued operations (including net gains on sale of assets) | 2,146 | 56,401 |
| Net gain on sale of residential condominiums | 1,005 | 1,274 |
| Net income attributable to noncontrolling interests in the Operating Partnership | (22,782) | (16,608) |
| Preferred unit distributions of the Operating Partnership | (1,134) | (7,747) |
| | $ (11,963) | $ 85,524 |

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**(a)** On April 22, 2013, LNR was sold.

**(b)** In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale.

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

**EBITDA by Region**

Below is a summary of the percentages of EBITDA by geographic region (excluding discontinued operations and other gains and losses that affect comparability), from our New York, Washington, DC and Retail Properties segments.

| | For the Six Months Ended June 30, 2013 | 2012 |
|---|---|---|
| **Region:** | | |
| New York City metropolitan area | 73% | 69% |
| Washington, DC / Northern Virginia metropolitan area | 24% | 27% |
| Puerto Rico | 1% | 2% |
| California | 1% | 1% |
| Other geographies | 1% | 1% |
| | 100% | 100% |

**Results of Operations – Six Months Ended June 30, 2013 Compared to June 30, 2012**

Revenues

Our revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of acquired below-market leases, net of above-market leases and fee income, were $1,405,837,000 for the six months ended June 30, 2013, compared to $1,346,310,000 in the prior year's six months, an increase of $59,527,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to: | Total | New York | Washington, DC | Retail Properties | Other |
|---|---|---|---|---|---|
| **Property rentals:** | | | | | |
| Acquisitions and other | $ 51,709 | $ 55,626 | $ - | $ (3,917) | $ - |
| Properties taken out of service for redevelopment | (4,983) | (448) | (2,258) | (2,174) | (103) |
| Hotel Pennsylvania | 4,416 | 4,416 | - | - | - |
| Trade Shows | (3,076) | - | - | - | (3,076) |
| Same store operations | 4,258 | 9,396 | (12,671) | 3,185 | 4,348 |
| | 52,324 | 68,990 | (14,929) | (2,906) | 1,169 |
| **Tenant expense reimbursements:** | | | | | |
| Acquisitions and other | 2,930 | 3,530 | (341) | (259) | - |
| Properties taken out of service for redevelopment | (1,766) | (135) | (132) | (1,401) | (98) |
| Same store operations | 9,345 | 4,364 | 405 | 2,102 | 2,474 |
| | 10,509 | 7,759 | (68) | 442 | 2,376 |
| **Cleveland Medical Mart development project** | (82,230)**(1)** | - | - | - | (82,230)**(1)** |
| **Fee and other income:** | | | | | |
| BMS cleaning fees | 681 | (4,557) | - | - | 5,238 **(2)** |
| Signage revenue | 5,359 | 5,359 | - | - | - |
| Management and leasing fees | 2,393 | 2,697 | 1,099 | (1,105) | (298) |
| Lease termination fees | 66,265 | 5,234 | 422 | 59,796 **(3)** | 813 |
| Other income | 4,226 | 1,636 | 837 | 145 | 1,608 |
| | 78,924 | 10,369 | 2,358 | 58,836 | 7,361 |
| Total increase (decrease) in revenues | $ 59,527 | $ 87,118 | $ (12,639) | $ 56,372 | $ (71,324) |

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**(1)** Primarily due to the project nearing completion. This decrease in revenue is offset by a decrease in development costs expensed in the period. See note (3) on page 67.

**(2)** Represents the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 67.

**(3)** Results primarily from income recognized in the first quarter of 2013 in connection with the settlement of the Stop & Shop litigation.

Expenses

Our expenses, which consist primarily of operating, depreciation and amortization and general and administrative expenses, were $937,904,000 for the six months ended June 30, 2013, compared to $961,291,000 in the prior year's six months, a decrease of $23,387,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

| Increase (decrease) due to: | Total | New York | Washington, DC | Retail Properties | Other |
|---|---|---|---|---|---|
| **Operating:** | | | | | |
| Acquisitions and other | $ 20,219 | $ 20,741 | $ - | $ (522) | $ - |
| Properties taken out of service for redevelopment | (7,477) | (1,006) | (734) | (4,599) | (1,138) |
| Non-reimbursable expenses, including bad debt reserves | 6,907 | 2,830 | 1,518 | 1,430 | 1,129 |
| Hotel Pennsylvania | 3,170 | 3,170 | - | - | - |
| Trade Shows | (2,453) | - | - | - | (2,453) |
| BMS expenses | 1,411 | (3,827) | - | - | 5,238 **(2)** |
| Same store operations | 9,714 | 7,083 | 1,210 | 3,592 | (2,171) |
| | 31,491 | 28,991 | 1,994 | (99) | 605 |
| **Depreciation and amortization:** | | | | | |
| Acquisitions and other | 31,012 | 31,843 | - | (831) | - |
| Properties taken out of service for redevelopment | (19,550) | (195) | (16,145) | (3,210) | - |
| Same store operations | 6,341 | 3,549 | 144 | (38) | 2,686 |
| | 17,803 | 35,197 | (16,001) | (4,079) | 2,686 |
| **General and administrative:** | | | | | |
| Mark-to-market of deferred compensation plan liability (1) | 1,787 | - | - | - | 1,787 |
| Severance costs (primarily reduction in force at the Merchandise Mart) | 3,648 | - | - | - | 3,648 |
| Same store operations | 1,348 | 2,462 | 617 | (2,116) | 385 |
| | 6,783 | 2,462 | 617 | (2,116) | 5,820 |
| **Cleveland Medical Mart development project** | (80,171)**(3)** | - | - | - | (80,171)**(3)** |
| **Acquisition related costs** | 707 | - | - | - | 707 |
| Total (decrease) increase in expenses | $ (23,387) | $ 66,650 | $ (13,390) | $ (6,294) | $ (70,353) |

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

**(2)** Represents the elimination of intercompany fees from operating segments upon consolidation. See note (2) on page 66.

**(3)** Primarily due to the project nearing completion. This decrease in expense is offset by the decrease in development revenue in the period. See note (1) on page 66.

(Loss) Income Applicable to Toys

In the fourth quarter of 2012, we recorded a $40,000,000 non-cash impairment loss on our investment in Toys and disclosed, that if current facts don't change, our share of Toys' undistributed income, which in accordance with the equity method of accounting, would increase the carrying amount of our investment above fair value, would require an offsetting impairment loss.

In the first quarter of 2013, we recognized our share of Toys' fourth quarter net income of $78,542,000 and a corresponding non-cash impairment loss of the same amount.

In the six months ended June 30, 2013, we recognized a net loss of $35,102,000 from our investment in Toys, comprised of $39,834,000 for our 32.6% share of Toys' net income, partially offset by a $78,542,000 impairment loss (see above), and $3,606,000 of management fee income. In the six months ended June 30, 2012, we recognized net income of $97,281,000 from our investment in Toys, comprised of $92,623,000 for our 32.5% share of Toys' net income and $4,658,000 of management fee income.

Income from Partially Owned Entities

Summarized below are the components of income (loss) from partially owned entities for the six months ended June 30, 2013 and 2012.

| (Amounts in thousands) | Percentage Ownership at June 30, 2013 | For the Six Months Ended June 30, 2013 | For the Six Months Ended June 30, 2012 |
|---|---|---|---|
| **Equity in Net Income (Loss):** | | | |
| Alexander's (decrease due to sale of Kings Plaza in November 2012) | 32.4% | $ 11,827 | $ 15,869 |
| Lexington [(1)] | n/a | (979) | 694 |
| LNR [(2)] | n/a | 18,731 | 22,719 |
| India real estate ventures | 4.0%-36.5% | (1,181) | (4,608) |
| Partially owned office buildings: | | | |
| 280 Park Avenue | 49.5% | (4,590) | (7,550) |
| Warner Building | 55.0% | (4,342) | (4,599) |
| 666 Fifth Avenue Office Condominium | 49.5% | 3,918 | 3,500 |
| 330 Madison Avenue | 25.0% | 2,489 | 812 |
| Rosslyn Plaza | 43.7%-50.4% | (1,451) | 303 |
| 1101 17th Street | 55.0% | 620 | 1,329 |
| One Park Avenue | 30.3% | 374 | 634 |
| West 57th Street Properties | 50.0% | 368 | 565 |
| Fairfax Square | 20.0% | (63) | (52) |
| Other partially owned office buildings | Various | 1,053 | 1,082 |
| Other investments: | | | |
| Independence Plaza | 50.1% | (1,118) | 3,415 |
| Monmouth Mall | 50.0% | 1,285 | 660 |
| Downtown Crossing, Boston [(3)] | n/a | (2,358) | (834) |
| Other investments [(4)] | Various | (2,345) | (1,716) |
| | | $ 22,238 | $ 32,223 |

**(1)** In the first quarter of 2013, we began accounting for our investment in Lexington as a marketable equity security - available for sale.

**(2)** On April 22, 2013, LNR was sold for $1.053 billion. We owned 26.2% of LNR and received net proceeds of approximately $241,000.

**(3)** On April 24, 2013, the joint venture sold the site in Downtown Crossing, Boston, and we received approximately $45,000 for our 50% interest. In connection therewith, we recognized a $2,335 impairment loss in the first quarter.

**(4)** Includes interests in 85 10th Avenue, Fashion Centre Mall, 50-70 West 93rd Street and others.

Income from Real Estate Fund

Below are the components of the income from our Real Estate Fund for the six months ended June 30, 2013 and 2012.

| (Amounts in thousands) | For the Six Months Ended June 30, | |
|---|---|---|
| | 2013 | 2012 |
| Net investment income | $ 3,925 | $ 4,084 |
| Net unrealized gains | 47,109 | 27,979 |
| Income from Real Estate Fund | 51,034 | 32,063 |
| Less (income) attributable to noncontrolling interests | (23,899) | (20,239) |
| Income from Real Estate Fund attributable to Vornado [(1)] | $ 27,135 | $ 11,824 |

**(1)** Excludes management, leasing and development fees of $1,676 and $1,420 for the six months ended June 30, 2013 and 2012, respectively, which are included as a component of "fee and other income" on our consolidated statements of income.

Interest and Other Investment Income (Loss), net

Interest and other investment income (loss), net was a loss of $22,658,000 in the six months ended June 30, 2013, compared to loss of $33,507,000 in the prior year's six months, an increase in income of $10,849,000. This increase resulted from:

| (Amounts in thousands) | |
|---|---|
| J.C. Penney derivative position ($13,475 mark-to-market loss in 2013, compared to a $57,687 mark-to-market loss in the prior year) | $ 44,212 |
| Non-cash impairment loss on J.C. Penney common shares in 2013 | (39,487) |
| Lower dividends and interest on marketable securities | (5,553) |
| Income from prepayment penalties in connection with the repayment of a mezzanine loan | 5,267 |
| Increase in the value of investments in our deferred compensation plan (offset by a corresponding increase in the liability for plan assets in general and administrative expenses) | 1,787 |
| Other, net | 4,623 |
| | $ 10,849 |

Interest and Debt Expense

Interest and debt expense was $243,650,000 in the six months ended June 30, 2013, compared to $254,379,000 in the prior year's six months, a decrease of $10,729,000. This decrease was primarily due to $17,131,000 of higher capitalized interest in the current period, partially offset by interest expense of $6,315,000 from the financing of the retail condominium at 666 Fifth Avenue and the Outlets at Bergen Town Center in the first quarter of 2013.

Net Gain (Loss) on Disposition of Wholly Owned and Partially Owned Assets

In the six months ended June 30, 2013, we recognized a $35,719,000 loss on disposition of wholly owned and partially owned assets (primarily from the sale of 10,000,000 J.C. Penney common shares), compared to a $4,856,000 net gain in the prior year's six months (primarily from the sale of residential condominiums and marketable securities).

Income Tax Expense

Income tax expense was $3,950,000 in the six months ended June 30, 2013, compared to $14,304,000 in the prior year's six months, a decrease of $10,354,000. This decrease resulted primarily from an $8,554,000 income tax provision in the prior year's six months applicable to a taxable REIT subsidiary that was liquidated in the fourth quarter of 2012.

Income from Discontinued Operations

We have reclassified the revenues and expenses of the properties that were sold and that are currently held for sale to "income from discontinued operations" and the related assets and liabilities to "assets related to discontinued operations" and "liabilities related to discontinued operations" for all the periods presented in the accompanying financial statements. The table below sets forth the combined results of assets related to discontinued operations for the six months ended June 30, 2013 and 2012.

| | For the Six Months Ended June 30, | |
|---|---|---|
| (Amounts in thousands) | 2013 | 2012 |
| Total revenues | $ 29,391 | $ 106,134 |
| Total expenses | 22,256 | 76,096 |
| | 7,135 | 30,038 |
| Net gains on sale of: | | |
| Green Acres Mall | 202,275 | - |
| 901 Market Street, Philadelphia | 33,058 | - |
| The Plant | 32,169 | - |
| 350 West Mart Center | - | 54,911 |
| Other real estate | 492 | 17,802 |
| Impairment losses | (4,007) | (13,511) |
| Income from discontinued operations | $ 271,122 | $ 89,240 |

Net Income Attributable to Noncontrolling Interests in Consolidated Subsidiaries

Net income attributable to noncontrolling interests in consolidated subsidiaries was $26,216,000 in the six months ended June 30, 2013, compared to $24,318,000 in the prior year's six months, an increase of $1,898,000. This increase resulted primarily from higher net income allocated to the noncontrolling interests of our Real Estate Fund.

Net Income Attributable to Noncontrolling Interests in the Operating Partnership

Net income attributable to noncontrolling interests in the Operating Partnership was $22,782,000 in the six months ended June 30, 2013, compared to $16,608,000 in the prior year's six months, an increase of $6,174,000. This increase resulted primarily from higher net income subject to allocation to unitholders.

Preferred Unit Distributions of the Operating Partnership

Preferred unit distributions of the Operating Partnership were $1,134,000 in the six months ended June 30, 2013, compared to $7,747,000 in the prior year's six months, a decrease of $6,613,000. This decrease resulted from the redemption of the 6.875% Series D-15 cumulative redeemable preferred units in May 2013, and the 7.0% Series D-10 and 6.75% Series D-14 cumulative redeemable preferred units in July 2012.

Preferred Share Dividends

Preferred share dividends were $42,070,000 in the six months ended June 30, 2013, compared to $35,574,000 in the prior year's six months, an increase of $6,496,000. This increase resulted from the issuance of $300,000,000 of 5.70% Series K cumulative redeemable preferred shares in July 2012 and $300,000,000 of 5.40% Series L cumulative redeemable preferred shares in January 2013, partially offset by the redemption of $262,500,000 of 6.75% Series F and Series H cumulative redeemable preferred shares in February 2013 and $75,000,000 of 7.0% Series E cumulative redeemable preferred shares in August 2012.

Preferred Unit and Share Redemptions

In the six months ended June 30, 2013, we recognized $1,130,000 of expense in connection with preferred unit and share redemptions, comprised of $9,230,000 of expense from the redemption of the 6.75% Series F and Series H cumulative redeemable preferred shares in February 2013, partially offset by an $8,100,000 discount from the redemption of all of the 6.875% Series D-15 cumulative redeemable preferred units in May 2013.

Same Store EBITDA

Same store EBITDA represents EBITDA from property level operations which are owned by us in both the current and prior year reporting periods. Same store EBITDA excludes segment-level overhead expenses, which are expenses that we do not consider to be property-level expenses, as well as other non-operating items. We present same store EBITDA on both a GAAP basis and a cash basis (which excludes income from the straight-lining of rents, amortization of below-market leases, net of above-market leases and other non-cash adjustments). We present these non-GAAP measures to (i) facilitate meaningful comparisons of the operational performance of our properties and segments, (ii) make decisions on whether to buy, sell or refinance properties, and (iii) compare the performance of our properties and segments to those of our peers. Same store EBITDA should not be considered as an alternative to net income or cash flow from operations and may not be comparable to similarly titled measures employed by other companies.

Below are reconciliations of EBITDA to same store EBITDA on a GAAP basis for each of our segments for the six months ended June 30, 2013, compared to the six months ended June 30, 2012.

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|---|---|---|
| EBITDA for the six months ended June 30, 2013 | $ 453,260 | $ 171,022 | $ 440,732 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 17,703 | 13,798 | 10,584 |
| Less EBITDA from: | | | |
| Acquisitions | (33,240) | - | - |
| Dispositions, including net gains on sale | - | (71) | (274,050) |
| Properties taken out-of-service for redevelopment | (9,309) | (2,806) | (1,383) |
| Other non-operating (income) expense | (6,887) | 54 | (58,943) |
| GAAP basis same store EBITDA for the six months ended June 30, 2013 | $ 421,527 | $ 181,997 | $ 116,940 |
| | | | |
| EBITDA for the six months ended June 30, 2012 | $ 403,373 | $ 196,824 | $ 147,095 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 15,241 | 13,181 | 12,700 |
| Less EBITDA from: | | | |
| Acquisitions | - | - | - |
| Dispositions, including net gains on sale | (5,408) | (9,962) | (39,734) |
| Properties taken out-of-service for redevelopment | (9,903) | (6,065) | (9) |
| Other non-operating expense (income) | 93 | 531 | (6,615) |
| GAAP basis same store EBITDA for the six months ended June 30, 2012 | $ 403,396 | $ 194,509 | $ 113,437 |
| | | | |
| Increase (decrease) in GAAP basis same store EBITDA - Six months ended June 30, 2013 and June 30, 2012[(1)] | $ 18,131 | $ (12,512) | $ 3,503 |
| | | | |
| % increase (decrease) in GAAP basis same store EBITDA | 4.5% | (6.4%) | 3.1% |

(1) See notes on following page

Notes to preceding tabular information

**New York:**

The $18,131,000 increase in New York GAAP basis same store EBITDA resulted primarily from an increase in Office and Retail GAAP basis same store EBITDA of $13,900,000 and $3,014,000, respectively. The $13,900,000 increase in Office GAAP basis same store EBITDA resulted primarily from an increase in (i) rental revenue of $7,596,000 (due to a $4.51 increase in average annual rents per square foot to $57.03 from $52.52, partially offset by a 150 basis point decrease in average same store occupancy to 94.8% from 96.3%), and (ii) signage revenue and management and leasing fees of $8,243,000, partially offset by (iii) higher operating expenses, net of reimbursements. The $3,014,000 increase in Retail GAAP basis same store EBITDA resulted primarily from an increase in (i) rental revenue of $1,800,000, (principally due a $4.34 increase in average annual rents per square foot to $117.46 from $113.12), and (ii) fee and other income of $1,116,000.

**Washington, DC:**

The $12,512,000 decrease in Washington, DC GAAP basis same store EBITDA resulted primarily from a decrease in rental revenue of $12,671,000, primarily due to a 570 basis point decrease in office average same store occupancy to 80.2% from 85.9%, a significant portion of which resulted from the effects of the BRAC statute (see page 49).

**Retail Properties:**

The $3,503,000 increase in Retail Properties GAAP basis same store EBITDA resulted primarily from an increase in Strips GAAP basis same store EBITDA of $3,344,000, which resulted primarily from higher rental revenue of $2,841,000, due to an 80 basis point increase in average same store occupancy to 92.9% from 92.1%.

**Results of Operations – Six Months Ended June 30, 2013 Compared to June 30, 2012 - continued**

Reconciliation of GAAP basis Same Store EBITDA to Cash basis Same Store EBITDA

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|---|---|---|
| GAAP basis same store EBITDA for the six months ended June 30, 2013 | $ 421,527 | $ 181,997 | $ 116,940 |
| Less: Adjustments for straight line rents, amortization of acquired below-market leases, net, and other non-cash adjustments | (52,073) | (6,763) | (6,412) |
| Cash basis same store EBITDA for the six months ended June 30, 2013 | $ 369,454 | $ 175,234 | $ 110,528 |
| GAAP basis same store EBITDA for the six months ended June 30, 2012 | $ 403,396 | $ 194,509 | $ 113,437 |
| Less: Adjustments for straight line rents, amortization of acquired below-market leases, net, and other non-cash adjustments | (64,171) | (4,482) | (6,403) |
| Cash basis same store EBITDA for the six months ended June 30, 2012 | $ 339,225 | $ 190,027 | $ 107,034 |
| Increase (decrease) in Cash basis same store EBITDA - Six months ended June 30, 2013 vs. June 30, 2012 | $ 30,229 | $ (14,793) | $ 3,494 |
| % increase (decrease) in Cash basis same store EBITDA | 8.9% | (7.8%) | 3.3% |

**SUPPLEMENTAL INFORMATION**

**Reconciliation of Net Income (Loss) to EBITDA for the Three Months Ended March 31, 2013.**

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|---|---|---|
| Net income attributable to Vornado for the three months ended March 31, 2013 | $ 89,088 | $ 18,889 | $ 289,584 |
| Interest and debt expense | 49,689 | 31,753 | 14,223 |
| Depreciation and amortization | 78,413 | 35,148 | 18,519 |
| Income tax expense | 347 | 454 | - |
| EBITDA for the three months ended March 31, 2013 | $ 217,537 | $ 86,244 | $ 322,326 |

**Reconciliation of EBITDA to GAAP basis Same Store EBITDA – Three Months Ended June 30, 2013 vs. March 31, 2013**

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|---|---|---|
| EBITDA for the three months ended June 30, 2013 | $ 235,723 | $ 84,778 | $ 118,406 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 8,881 | 6,873 | 5,169 |
| Less EBITDA from: | | | |
| Acquisitions | 913 | - | - |
| Dispositions, including net gains on sale | - | 27 | (64,466) |
| Properties taken out-of-service for redevelopment | (4,900) | (1,066) | (916) |
| Other non-operating (income) expense | (5,679) | 422 | 839 |
| GAAP basis same store EBITDA for the three months ended June 30, 2013 | $ 234,938 | $ 91,034 | $ 59,032 |
| | | | |
| EBITDA for the three months ended March 31, 2013 | $ 217,537 | $ 86,244 | $ 322,326 |
| Add-back: | | | |
| Non-property level overhead expenses included above | 8,821 | 6,925 | 5,415 |
| Less EBITDA from: | | | |
| Acquisitions | (3,684) | - | - |
| Dispositions, including net gains on sale | - | (98) | (209,583) |
| Properties taken out-of-service for redevelopment | (4,410) | (1,740) | (467) |
| Other non-operating (income) expense | (1,207) | (368) | (59,783) |
| GAAP basis same store EBITDA for the three months ended March 31, 2013 | $ 217,057 | $ 90,963 | $ 57,908 |
| | | | |
| Increase in GAAP basis same store EBITDA - Three months ended June 30, 2013 and March 31, 2013 | $ 17,881 | $ 71 | $ 1,124 |
| | | | |
| % increase in GAAP basis same store EBITDA | 8.2% | 0.1% | 1.9% |

**SUPPLEMENTAL INFORMATION – CONTINUED**

**Reconciliation of GAAP basis Same Store EBITDA to Cash basis Same Store EBITDA – Three Months Ended June 30, 2013 vs. March 31, 2013**

| (Amounts in thousands) | New York | Washington, DC | Retail Properties |
|---|---|---|---|
| GAAP basis same store EBITDA for the three months ended June 30, 2013 | $ 234,938 | $ 91,034 | $ 59,032 |
| Less: Adjustments for straight line rents, amortization of acquired below-market leases, net, and other non-cash adjustments | (28,108) | (2,597) | (3,216) |
| Cash basis same store EBITDA for the three months ended June 30, 2013 | $ 206,830 | $ 88,437 | $ 55,816 |
| GAAP basis same store EBITDA for the three months ended March 31, 2013 | $ 217,057 | $ 90,963 | $ 57,908 |
| Less: Adjustments for straight line rents, amortization of acquired below-market leases, net, and other non-cash adjustments | (28,740) | (4,167) | (3,196) |
| Cash basis same store EBITDA for the three months ended March 31, 2013 | $ 188,317 | $ 86,796 | $ 54,712 |
| Increase in Cash basis same store EBITDA - Three months ended June 30, 2013 vs. March 31, 2013 | $ 18,513 | $ 1,641 | $ 1,104 |
| % increase in Cash basis same store EBITDA | 9.8% | 1.9% | 2.0% |

**Liquidity and Capital Resources**

Property rental income is our primary source of cash flow and is dependent upon the occupancy and rental rates of our properties. Our cash requirements include property operating expenses, capital improvements, tenant improvements, leasing commissions, dividends to shareholders, distributions to unitholders of the Operating Partnership, as well as acquisition and development costs. Other sources of liquidity to fund cash requirements include proceeds from debt financings, including mortgage loans, senior unsecured borrowings, and our revolving credit facilities; proceeds from the issuance of common and preferred equity; and asset sales.

We anticipate that cash flow from continuing operations over the next twelve months will be adequate to fund our business operations, cash distributions to unitholders of the Operating Partnership, cash dividends to shareholders, debt amortization and recurring capital expenditures. Capital requirements for development expenditures and acquisitions (excluding Fund acquisitions) may require funding from borrowings and/or equity offerings. Our Real Estate Fund has aggregate unfunded commitments of $246,582,000, including $61,645,000 from us.

We may from time to time purchase or retire outstanding debt securities or redeem our equity securities. Such purchases, if any, will depend on prevailing market conditions, liquidity requirements and other factors. The amounts involved in connection with these transactions could be material to our consolidated financial statements.

*Cash Flows for the Six Months Ended June 30, 2013*

Our cash and cash equivalents were $781,655,000 at June 30, 2013, a $178,664,000 decrease over the balance at December 31, 2012. Our consolidated outstanding debt was $10,024,737,000 at June 30, 2013, a $1,166,597,000 decrease over the balance at December 31, 2012. As of June 30, 2013 and December 31, 2012, $83,982,000 and $1,170,000,000, respectively, was outstanding under our revolving credit facilities. During the remainder of 2013 and 2014, $177,058,000 and $235,548,000, respectively, of our outstanding debt matures; we may refinance this maturing debt as it comes due or choose to repay it.

Cash flows provided by operating activities of $444,800,000 was comprised of (i) net income of $471,248,000, (ii) $61,190,000 of non-cash adjustments, which include depreciation and amortization expense, the effect of straight-lining of rental income, equity in net income of partially owned entities and net gains on sale of real estate, (iii) return of capital from Real Estate Fund investments of $56,664,000, and (iv) distributions of income from partially owned entities of $23,774,000, partially offset by (v) the net change in operating assets and liabilities of $168,076,000, including $30,893,000 related to Real Estate Fund investments.

Net cash provided by investing activities of $1,070,685,000 was comprised of (i) $648,167,000 of proceeds from sales of real estate and related investments, (ii) $281,991,000 of capital distributions from partially owned entities, (iii) $240,474,000 from the sale of LNR, (iv) $160,715,000 of proceeds from the sale of marketable securities, (v) $85,450,000 from the return of the J.C. Penney derivative collateral, (vi) 47,950,000 of proceeds from repayments of mortgages and mezzanine loans receivable, and (vii) $16,596,000 of changes in restricted cash, partially offset by (viii) $113,060,000 of additions to real estate, (ix) $98,447,000 for the funding of the J.C. Penney derivative collateral, (x) $85,550,000 of development costs and construction in progress, (xi) $59,472,000 of investments in partially owned entities, (xii) $53,992,000 of acquisitions of real estate, and (xiii) 137,000 of investment in mortgage and mezzanine loans receivable and other.

Net cash used in financing activities of $1,694,149,000 was comprised of (i) $2,800,441,000 for the repayments of borrowings, (ii) $299,400,000 for purchases of outstanding preferred units and shares, (iii) $272,825,000 of dividends paid on common shares, (iv) $181,510,000 of distributions to noncontrolling interests, (v) $42,451,000 of dividends paid on preferred shares, (vi) $9,520,000 of debt issuance and other costs, and (vii) $332,000 for the repurchase of shares related to stock compensation agreements and related tax holdings, partially offset by (viii) $1,583,357,000 of proceeds from borrowings, (ix) $290,536,000 of proceeds from the issuance of preferred shares, (x) $33,967,000 of contributions from noncontrolling interests in consolidated subsidiaries, and (xi) $4,470,000 of proceeds received from the exercise of employee share options.

*Capital Expenditures*

Capital expenditures consist of expenditures to maintain assets, tenant improvement allowances and leasing commissions. Recurring capital expenditures include expenditures to maintain a property's competitive position within the market and tenant improvements and leasing commissions necessary to re-lease expiring leases or renew or extend existing leases. Non-recurring capital improvements include expenditures to lease space that has been vacant for more than nine months and expenditures completed in the year of acquisition and the following two years that were planned at the time of acquisition, as well as tenant improvements and leasing commissions for space that was vacant at the time of acquisition of a property.

Below is a summary of capital expenditures, leasing commissions and a reconciliation of total expenditures on an accrual basis to the cash expended in the six months ended June 30, 2013.

| (Amounts in thousands) | Total | New York | Washington, DC | Retail Properties | Other |
|---|---|---|---|---|---|
| Expenditures to maintain assets | $ 23,035 | $ 10,119 | $ 4,814 | $ 1,855 | $ 6,247 |
| Tenant improvements | 86,797 | 55,834 | 17,373 | 8,032 | 5,558 |
| Leasing commissions | 30,654 | 24,840 | 3,479 | 1,339 | 996 |
| Non-recurring capital expenditures | 2,163 | 2,163 | - | - | - |
| Total capital expenditures and leasing commissions (accrual basis) | 142,649 | 92,956 | 25,666 | 11,226 | 12,801 |
| Adjustments to reconcile to cash basis: | | | | | |
| Expenditures in the current year applicable to prior periods | 71,961 | 24,978 | 17,393 | 4,576 | 25,014 |
| Expenditures to be made in future periods for the current period | (77,870) | (50,081) | (18,297) | (9,292) | (200) |
| Total capital expenditures and leasing commissions (cash basis) | $ 136,740 | $ 67,853 | $ 24,762 | $ 6,510 | $ 37,615 |
| *Tenant improvements and leasing commissions:* | | | | | |
| *Per square foot per annum* | *$ 4.14* | *$ 5.08* | *$ 6.98* | *$ 1.23* | *$ -* |
| *Percentage of initial rent* | *9.6%* | *7.8%* | *16.7%* | *6.4%* | *-* |

*Development and Redevelopment Expenditures*

Development and redevelopment expenditures consist of all hard and soft costs associated with the development or redevelopment of a property, including tenant improvements, leasing commissions, capitalized interest and operating costs until the property is substantially completed and ready for its intended use.

We are in the process of renovating the Springfield Mall, which is expected to be substantially completed in 2014. The estimated cost of this project is approximately $225,000,000, of which $21,500,000 was expended prior to 2013, $100,000,000 is expected to be expended in 2013 and the balance is to be expended in 2014.

We also plan to develop a new 699-unit residential project in Pentagon City, which is expected to be completed in 2016. The project will include a 37,000 square foot Whole Foods Market at the base of the building. The estimated cost of this project is approximately $250,000,000; a significant portion of which is expected to be financed.

**Liquidity and Capital Resources – continued**

*Development and Redevelopment Expenditures - continued*

Below is a summary of development and redevelopment expenditures incurred in the six months ended June 30, 2013.

| (Amounts in thousands) | Total | New York | Washington, DC | Retail Properties | Other |
|---|---|---|---|---|---|
| Springfield Mall | $ 24,707 | $ - | $ - | $ 24,707 | $ - |
| 220 Central Park South | 10,556 | - | - | - | 10,556 |
| 1290 Avenue of the Americas | 8,723 | 8,723 | - | - | - |
| Marriott Marquis Times Square - retail and signage | 5,907 | 5,907 | - | - | - |
| 1540 Broadway | 4,355 | 4,355 | - | - | - |
| LED Signage | 3,685 | 3,685 | - | - | - |
| 1851 South Bell Street (1900 Crystal Drive) | 2,685 | - | 2,685 | - | - |
| North Plainfield, New Jersey | 2,045 | - | - | 2,045 | - |
| Other | 22,887 | 3,639 | 11,481 | 5,489 | 2,278 |
| | $ 85,550 | $ 26,309 | $ 14,166 | $ 32,241 | $ 12,834 |

In addition to the development and redevelopment projects above, we are in the process of retenanting and repositioning 280 Park Avenue (50% owned). Our share of the estimated cost of this project is approximately $62,000,000, of which $11,000,000 was expended prior to 2013 and $12,000,000 has been expended in 2013.

There can be no assurance that any of our development projects will commence, or if commenced, be completed on schedule or within budget.

*Cash Flows for the Six Months Ended June 30, 2012*

Our cash and cash equivalents were $471,363,000 at June 30, 2012, a $135,190,000 decrease over the balance at December 31, 2011. This decrease was primarily due to cash flows from financing activities, partially offset by cash flows from operating and investing activities, as discussed below.

Cash flows provided by operating activities of $263,864,000 was comprised of (i) net income of $338,492,000, (ii) distributions of income from partially owned entities of $34,613,000, and (iii) $73,175,000 of non-cash adjustments, which include depreciation and amortization expense, the effect of straight-lining of rental income, equity in net income of partially owned entities and net gains on sale of real estate, partially offset by (iv) the net change in operating assets and liabilities of $182,416,000, including $85,867,000 related to Real Estate Fund investments.

Net cash provided by investing activities of $170,894,000 was comprised of (i) $370,037,000 of proceeds from sales of real estate and related investments, (ii) $58,460,000 of proceeds from the sale of marketable securities, (iii) $24,950,000 from the return of the J.C. Penney derivative collateral, (iv) $17,963,000 of capital distributions from partially owned entities, (v) $13,123,000 of proceeds from the repayment of loan to officer, and (vi) $1,994,000 of proceeds from repayments of mortgage and mezzanine loans receivable, partially offset by (vii) $83,368,000 of additions to real estate, (viii) $70,000,000 for the funding of the J.C. Penney derivative collateral, (ix) $58,069,000 of development costs and construction in progress, (x) $57,237,000 of investments in partially owned entities, (xi) $32,156,000 of acquisitions of real estate and other, (xii) $14,658,000 of changes in restricted cash, and (xiii) $145,000 of investment in mortgage and mezzanine loans receivable and other.

Net cash used in financing activities of $569,948,000 was comprised of (i) $1,507,220,000 for the repayments of borrowings, (ii) $256,119,000 of dividends paid on common shares, (iii) $69,367,000 of distributions to noncontrolling interests, (iv) $35,576,000 of dividends paid on preferred shares, (v) $30,034,000 for the repurchase of shares related to stock compensation agreements and related tax holdings, and (vi) $14,648,000 of debt issuance and other costs, partially offset by (vii) $1,225,000,000 of proceeds from borrowings, (viii) $108,349,000 of contributions from noncontrolling interests in consolidated subsidiaries, and (ix) $9,667,000 of proceeds received from exercise of employee share options.

**Liquidity and Capital Resources – continued**

*Capital Expenditures in the six months ended June 30, 2012*

| (Amounts in thousands) | Total | New York | Washington, DC | Retail Properties | Other |
|---|---|---|---|---|---|
| Expenditures to maintain assets | $ 22,625 | $ 10,033 | $ 5,244 | $ 2,665 | $ 4,683 |
| Tenant improvements | 60,511 | 25,820 | 25,332 | 6,503 | 2,856 |
| Leasing commissions | 23,438 | 14,219 | 7,342 | 1,755 | 122 |
| Non-recurring capital expenditures | 4,877 | 4,095 | - | - | 782 |
| Total capital expenditures and leasing commissions (accrual basis) | 111,451 | 54,167 | 37,918 | 10,923 | 8,443 |
| Adjustments to reconcile to cash basis: | | | | | |
| Expenditures in the current year applicable to prior periods | 58,095 | 20,667 | 16,603 | 4,917 | 15,908 |
| Expenditures to be made in future periods for the current period | (69,209) | (33,249) | (27,479) | (6,951) | (1,530) |
| Total capital expenditures and leasing commissions (cash basis) | $ 100,337 | $ 41,585 | $ 27,042 | $ 8,889 | $ 22,821 |
| *Tenant improvements and leasing commissions:* | | | | | |
| *Per square foot per annum* | $ *3.56* | $ *4.57* | $ *4.91* | $ *1.05* | $ - |
| *Percentage of initial rent* | *8.6%* | *7.0%* | *12.7%* | *5.4%* | - |

*Development and Redevelopment Expenditures in the six months ended June 30, 2012*

| (Amounts in thousands) | Total | New York | Washington, DC | Retail Properties | Other |
|---|---|---|---|---|---|
| 510 Fifth Avenue | $ 8,369 | $ 8,369 | $ - | $ - | $ - |
| Bergen Town Center | 8,114 | - | - | 8,114 | - |
| Crystal Square 5 | 6,976 | - | 6,976 | - | - |
| Beverly Connection | 5,842 | - | - | 5,842 | - |
| 220 Central Park South | 3,108 | - | - | - | 3,108 |
| 1290 Avenue of the Americas | 2,947 | 2,947 | - | - | - |
| Poughkeepsie, New York | 1,411 | - | - | 1,411 | - |
| Crystal City Hotel | 1,316 | - | 1,316 | - | - |
| Crystal Plaza 5 | 1,191 | - | 1,191 | - | - |
| Other | 18,795 | 5,933 | 5,327 | 7,260 | 275 |
| | $ 58,069 | $ 17,249 | $ 14,810 | $ 22,627 | $ 3,383 |

*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 June 30, 2013, the aggregate dollar amount of these guarantees and master leases is approximately $372,000,000.

At June 30, 2013, $22,053,000 of letters of credit were outstanding under one of our revolving credit facilities. Our credit facilities contain financial covenants that require us to maintain minimum interest coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our credit facilities also contain customary conditions precedent to borrowing, including representations and warranties, and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

Two of our wholly owned subsidiaries that are contracted to develop and operate the Cleveland Medical Mart and Convention Center, in Cleveland, Ohio, are required to fund $11,500,000, primarily for tenant improvements, and they are responsible for operating expenses and are entitled to the net operating income, if any, upon the completion of development and the commencement of operations. As of June 30, 2013, our subsidiaries have funded approximately $3,177,000 of the commitment.

As of June 30, 2013, we expect to fund additional capital to certain of our partially owned entities aggregating approximately $168,000,000.

**Funds From Operations ("FFO")**

FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts ("NAREIT"). NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gain from sales of depreciated real estate assets, real estate impairment losses, depreciation and amortization expense from real estate assets, extraordinary items and other specified non-cash items, including the pro rata share of such adjustments of unconsolidated subsidiaries. FFO and FFO per diluted share are used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. FFO does not represent cash generated from operating activities and is not necessarily indicative of cash available to fund cash requirements and should not be considered as an alternative to net income as a performance measure or cash flows as a liquidity measure. FFO may not be comparable to similarly titled measures employed by other companies. The calculations of both the numerator and denominator used in the computation of income per share are disclosed in Note 20 – *Income per Share*, in our consolidated financial statements on page 31 of this Quarterly Report on Form 10-Q.

*FFO for the Three and Six Months Ended June 30, 2013 and 2012*

FFO attributable to common shareholders plus assumed conversions was $235,348,000, or $1.25 per diluted share for the three months ended June 30, 2013, compared to $166,672,000, or $0.89 per diluted share, for the prior year's quarter. FFO attributable to common shareholders plus assumed conversions was $437,168,000, or $2.33 per diluted share for the six months ended June 30, 2013, compared to $516,328,000, or $2.72 per diluted share, for the prior year's six months. Details of certain items that affect comparability are discussed in the financial results summary of our "Overview."

| (Amounts in thousands, except per share amounts) | For The Three Months Ended June 30, | | For The Six Months Ended June 30, | |
|---|---|---|---|---|
| **Reconciliation of our net income to FFO:** | **2013** | **2012** | **2013** | **2012** |
| Net income attributable to Vornado | $ 158,194 | $ 38,297 | $ 421,116 | $ 289,819 |
| Depreciation and amortization of real property | 126,728 | 126,063 | 259,241 | 258,621 |
| Net gains on sale of real estate | (65,665) | (16,896) | (267,994) | (72,713) |
| Real estate impairment losses | 2,493 | 13,511 | 4,007 | 13,511 |
| Proportionate share of adjustments to equity in net income of Toys, to arrive at FFO: | | | | |
| Depreciation and amortization of real property | 17,480 | 16,513 | 36,805 | 33,801 |
| Real estate impairment losses | 620 | 1,368 | 4,270 | 8,394 |
| Income tax effect of above adjustments | (6,326) | (6,351) | (14,376) | (14,848) |
| Proportionate share of adjustments to equity in net income of partially owned entities, excluding Toys, to arrive at FFO: | | | | |
| Depreciation and amortization of real property | 19,486 | 21,684 | 41,316 | 43,060 |
| Net gains on sale of real estate | - | (234) | (465) | (895) |
| Real estate impairment losses | - | - | - | 1,849 |
| Noncontrolling interests' share of above adjustments | (5,421) | (9,524) | (3,607) | (16,584) |
| FFO | 247,589 | 184,431 | 480,313 | 544,015 |
| Preferred share dividends | (20,368) | (17,787) | (42,070) | (35,574) |
| Preferred unit and share redemptions | 8,100 | - | (1,130) | - |
| FFO attributable to common shareholders | 235,321 | 166,644 | 437,113 | 508,441 |
| Convertible preferred share dividends | 27 | 28 | 55 | 57 |
| Interest on 3.88% exchangeable senior debentures | - | - | - | 7,830 |
| FFO attributable to common shareholders plus assumed conversions | $ 235,348 | $ 166,672 | $ 437,168 | $ 516,328 |
| | | | | |
| **Reconciliation of Weighted Average Shares** | | | | |
| Weighted average common shares outstanding | 186,931 | 185,673 | 186,842 | 185,521 |
| Effect of dilutive securities: | | | | |
| Employee stock options and restricted share awards | 742 | 669 | 737 | 700 |
| Convertible preferred shares | 47 | 49 | 48 | 50 |
| 3.88% exchangeable senior debentures | - | - | - | 3,430 |
| Denominator for FFO per diluted share | 187,720 | 186,391 | 187,627 | 189,701 |
| | | | | |
| FFO attributable to common shareholders plus assumed conversions per diluted share | $ 1.25 | $ 0.89 | $ 2.33 | $ 2.72 |

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

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

| (Amounts in thousands, except per share amounts) | 2013 | | | 2012 | |
|---|---|---|---|---|---|
| Consolidated debt: | June 30, Balance | Weighted Average Interest Rate | Effect of 1% Change In Base Rates | December 31, Balance | Weighted Average Interest Rate |
| Variable rate | $ 1,353,742 | 2.35% | $ 13,537 | $ 3,062,325 | 1.85% |
| Fixed rate | 8,670,995 | 5.04% | - | 8,129,009 | 5.18% |
| | $ 10,024,737 | 4.67% | 13,537 | $ 11,191,334 | 4.27% |
| Pro-rata share of debt of non-consolidated entities (non-recourse): | | | | | |
| Variable rate – excluding Toys | $ 193,143 | 2.12% | 1,931 | $ 264,531 | 2.88% |
| Variable rate – Toys | 699,034 | 5.95% | 6,990 | 703,922 | 5.69% |
| Fixed rate (including $982,992 and $1,148,407 of Toys debt in 2013 and 2012) | 2,939,306 | 7.03% | - | 3,030,476 | 7.04% |
| | $ 3,831,483 | 6.59% | 8,921 | $ 3,998,929 | 6.53% |
| Noncontrolling interests' share of above | | | (1,303) | | |
| Total change in annual net income | | | $ 21,155 | | |
| Per share-diluted | | | $ 0.11 | | |

We may utilize various financial instruments to mitigate the impact of interest rate fluctuations on our cash flows and earnings, including hedging strategies, depending on our analysis of the interest rate environment and the costs and risks of such strategies. As of June 30, 2013, we have one interest rate cap with a principal amount of $60,000,000 and an interest rate of 2.36%. This cap is based on a notional amount of $60,000,000 and caps LIBOR at a rate of 7.00%. In addition, we have one interest rate swap on a $425,000,000 mortgage loan that swapped the rate from LIBOR plus 2.00% (2.19% at June 30, 2013) to a fixed rate of 5.13% for the remaining five-year term of the loan.

As of June 30, 2013, we have investments in mezzanine loans with an aggregate carrying amount of $151,052,000 that are based on variable interest rates which partially mitigate our exposure to a change in interest rates on our variable rate debt.

*Fair Value of Debt*

The estimated fair value of our consolidated debt is calculated based on current market prices and discounted cash flows at the rate at which similar loans could be made currently to borrowers with similar credit ratings, for the remaining term of such debt. As of June 30, 2013, the estimated fair value of our consolidated debt was $10,081,982,000.

*Derivative Instruments*

We have, and may in the future enter into, derivative positions that do not qualify for hedge accounting treatment, including our economic interest in J.C. Penney common shares. Because these derivatives do not qualify for hedge accounting treatment, the gains or losses resulting from their mark-to-market at the end of each reporting period are recognized as an increase or decrease in "interest and other investment income (loss), net" on our consolidated statements of income. In addition, we are, and may in the future be, subject to additional expense based on the notional amount of the derivative positions and a specified spread over LIBOR. Because the market value of these instruments can vary significantly between periods, we may experience significant fluctuations in the amount of our investment income or expense in any given period. In the three months ended June 30, 2013 and 2012, we recognized income of $9,065,000 and a loss of $58,732,000, respectively. In the six months ended June 30, 2013 and 2012, we recognized losses of $13,475,000 and $57,687,000, respectively.

### Item 4. Controls and Procedures

Disclosure Controls and Procedures: The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2013, such disclosure controls and procedures were effective.

Internal Control Over Financial Reporting: There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

There were no material changes to the Risk Factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

During the second quarter of 2013, we issued 17,933 common shares upon the redemption of Class A units of the Operating Partnership held by persons who received units, in private placements in earlier periods, in exchange for their interests in limited partnerships that owned real estate. The common shares were issued without registration under the Securities Act of 1933 in reliance on Section 4 (2) of that Act.

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth under Part III, Item 12 of the Annual Report on Form 10-K for the year ended December 31, 2012, and such information is incorporated by reference herein.

### Item 3. Defaults Upon Senior Securities

None.

### Item 4. Mine Safety Disclosures

Not applicable.

### Item 5. Other Information

None.

### Item 6. Exhibits

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

**SIGNATURES**

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

| | | |
|---|---|---|
| | | **VORNADO REALTY TRUST** |
| | | (Registrant) |
| Date: August 5, 2013 | By: | /s/ Stephen W. Theriot |
| | | Stephen W. Theriot, Chief Financial Officer<br>(duly authorized officer and principal financial and accounting officer) |

**EXHIBIT INDEX**

| Exhibit No. | | | | |
|---|---|---|---|---|
| 3.3 | | - | Articles Supplementary, 5.40% Series L Cumulative Redeemable Preferred Shares of Beneficial Interest, liquidation preference $25.00 per share, no par value – Incorporated by reference to Exhibit 3.6 to Vornado Realty Trust's Registration Statement on Form 8-A (File No. 001-11954), filed on January 25, 2013 | * |
| 3.49 | | - | Forty-Fifth Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of January 25, 2013 – Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P.'s Current Report on Form 8-K (File No. 001-34482), filed on January 25, 2013 | * |
| 10.46 | ** | - | Letter Agreement between Vornado Realty Trust and Michael D. Fascitelli, dated February 27, 2013. Incorporated by reference to Exhibit 99.1 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on February 27, 2013 | * |
| 10.47 | ** | - | Waiver and Release between Vornado Realty Trust and Michael D. Fascitelli, dated February 27, 2013. Incorporated by reference to Exhibit 99.2 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on February 27, 2013 | * |
| 10.48 | | - | Amendment to June 2011 Revolving Credit Agreement dated as of March 28, 2013, by and among Vornado Realty L.P., as Borrower, the banks listed on the signature pages, and J.P. Morgan Chase Bank N.A., as Administrative Agent. Incorporated by reference to Exhibit 10.48 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (File No. 001-11954), filed on May 6, 2013 | * |
| 10.49 | | - | Amendment to November 2011 Revolving Credit Agreement dated as of March 28, 2013, by and among Vornado Realty L.P., as Borrower, the banks listed on the signature pages, and J.P. Morgan Chase Bank N.A., as Administrative Agent. Incorporated by reference to Exhibit 10.49 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (File No. 001-11954), filed on May 6, 2013 | * |
| 10.50 | ** | - | Form of Vornado Realty Trust 2013 Outperformance Plan Award Agreement. Incorporated by reference to Exhibit 10.50 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 (File No. 001-11954), filed on May 6, 2013 | * |
| 10.51 | ** | - | Employment agreement between Vornado Realty Trust and Stephen W. Theriot dated June 1, 2013 | |
| 15.1 | | - | Letter regarding Unaudited Interim Financial | |
| 31.1 | | - | Rule 13a-14 (a) Certification of the Chief Executive Officer | |
| 31.2 | | - | Rule 13a-14 (a) Certification of the Chief Financial Officer | |
| 32.1 | | - | Section 1350 Certification of the Chief Executive Officer | |
| 32.2 | | - | Section 1350 Certification of the Chief Financial Officer | |

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|---|---|
| * | Incorporated by reference |
| ** | Management contract or compensation agreement |

| | | |
|---|---|---|
| 101.INS | - | XBRL Instance Document |
| 101.SCH | - | XBRL Taxonomy Extension Schema |
| 101.CAL | - | XBRL Taxonomy Extension Calculation Linkbase |
| 101.DEF | - | XBRL Taxonomy Extension Definition Linkbase |
| 101.LAB | - | XBRL Taxonomy Extension Label Linkbase |
| 101.PRE | - | XBRL Taxonomy Extension Presentation Linkbase |

**Exhibit 10.51**

# EMPLOYMENT AGREEMENT

Employment Agreement (the "Agreement"), dated as of June 1, 2013, by and between Vornado Realty Trust, a Maryland real estate investment trust, with its principal offices at 888 Seventh Avenue, New York, New York 10106 and Stephen Theriot ("Executive").

## Recitals

The Company and Executive desire to set forth the terms upon which the Executive will enter into employment with Vornado Realty Trust or its affiliate (the "Company");

NOW, THEREFORE, in consideration of the premises and the mutual covenants set forth below, the parties hereby agree as follows:

## Agreement

1. Employment. The Company hereby agrees to employ Executive, and Executive hereby accepts such employment, on the terms and conditions hereinafter set forth.

2. Term. The term of Executive's employment hereunder by the Company (the "Employment Period") will commence on the Effective Date and will continue "at will" thereafter and may be terminated by either party at any time on 60 days' notice. The "Effective Date" will mean the later of (a) June 1, 2013 and (b) such date as Executive is deemed "independent" from his former employer for the purposes of the rules and regulations of the Securities and Exchange Commission; *provided*, if the Effective Date has not occurred on or prior to June 15, 2013, this Agreement will automatically terminate and become null and void, without any force and effect (including, without obligation, any obligation of any party to make any severance, termination or other payments hereunder or otherwise).

3. Position and Duties. During the Employment Period, Executive will serve as Chief Financial Officer (or such other position as the parties may agree), and will report to the Chief Executive Officer of the Company. Executive will have those powers and duties normally associated with the position of Chief Financial Officer and such other powers and duties as may be prescribed by or at direction of the Chief Executive Officer, Chairman of the Board, the Board of Trustees or the Audit Committee of the Board of Trustees of the Company, provided that such other powers and duties are consistent with Executive's position as Chief Financial Officer of the Company. Executive will devote substantially all of his working time, attention and energies during normal business hours (other than absences due to illness or vacation) to the performance of his duties for the Company and its affiliates. Without the consent of the Company, during the Employment Period, Executive will not serve on the board of directors or any similar governing body of any for-profit entity. Notwithstanding the above, Executive will be permitted, to the extent such activities do not substantially interfere with the performance by Executive of his duties and responsibilities hereunder or violate Section 10(a), (b) or (c) of this Agreement, to (i) manage Executive's personal, financial and legal affairs, and (ii) serve on civic or charitable boards or committees (it being expressly understood and agreed that Executive's continuing to serve on the board and/or committees on which Executive is serving, or with which Executive is otherwise associated, as of the Effective Date (each of which has been disclosed to the Company on a list provided to the Company by the Executive coincident with the execution of this Agreement), will be deemed not to interfere with the performance by Executive of his duties and responsibilities under this Agreement).

4. Place of Performance. The principal place of employment of Executive will be at the Company's offices in Paramus, New Jersey.

5. Compensation and Related Matters.

(a) *Base Salary*. During the Employment Period the Company will pay Executive a base salary at the rate of not less than $1,000,000 per year ("Base Salary"). Executive's Base Salary will be paid in approximately equal installments in accordance with the Company's customary payroll practices. If Executive's Base Salary is increased by the Company, such increased Base Salary will then constitute the Base Salary for all purposes of this Agreement.

(b) *Annual Bonus (Annual Incentive Awards)*. During the Employment Period, Executive will be entitled to receive an annual bonus (payable in cash and/or equity of the Company at the discretion of the Company) on the same basis as other senior executives commensurate with his position with the Company to be determined in the discretion of the Company. The target for such bonus for 2013 will be not less than $500,000 (*pro rated* for the portion of the year served).

(c) *Long-Term Incentive Awards*. During the Employment Period, Executive will be eligible to participate in the Company's long-term incentive compensation plans with the amounts of any awards to be determined at the discretion of the Company.

(d) *Welfare, Pension and Incentive Benefit Plans*. During the Employment Period, Executive will be entitled to participate in such 401(k) and employee welfare and benefit plans and programs of the Company as are made available to the Company's senior level executives or to its employees generally, as such plans or programs may be in effect from time to time, including, without limitation, health, medical, dental, long-term disability and life insurance plans.

(e) *Expenses*. The Company will promptly reimburse Executive for all reasonable business expenses upon the presentation of reasonably itemized statements of such expenses in accordance with the Company's policies and procedures now in force or as such policies and procedures may be modified with respect to all senior executive officers of the Company.

(f) *Vacation*. Executive will be entitled to four weeks of vacation annually.

(g) *Signing Bonus*. Executive will receive a signing bonus of $100,000 payable in the ordinary course at the first pay period following his reporting for duties with the Company.

6. Reasons for Termination. Executive's employment hereunder may or will be terminated during the Employment Period under the following circumstances:

(a) *Death*. Executive's employment hereunder will terminate upon his death.

(b) *Disability*. If, as a result of Executive's incapacity due to physical or mental illness, Executive shall have been substantially unable to perform his duties hereunder for an entire period of 180 days, the Company will have the right to terminate Executive's employment hereunder for "Disability". During any period that Executive fails to perform his duties hereunder as a result of incapacity due to physical or mental illness, Executive will continue to receive his full Base Salary set forth in Section 5(a) until his employment terminates.

(c) *Cause*. The Company will have the right to terminate Executive's employment for Cause. For purposes of this Agreement, the Company will have "Cause" to terminate Executive's employment upon Executive's:

(i) conviction of, or plea of guilty or *nolo contendere* to, a felony;

(ii) willful and continued failure to use reasonable best efforts to substantially perform his duties hereunder (other than such failure resulting from Executive's incapacity due to physical or mental illness or subsequent to the issuance of a Notice of Termination by Executive for Good Reason) that Executive fails to remedy to the reasonable satisfaction of the Company within 30 days after written notice is delivered by the Company to Executive that sets forth in reasonable detail the basis of Executive's failure to use reasonable best efforts to substantially perform his duties hereunder; or

(iii) willful misconduct (including, but not limited to, a willful breach of the provisions of Section 10) that is or may reasonably be expected to have a material adverse effect on the reputation or interests of the Company.

For purposes of this Section 6(c), no act, or failure to act, by Executive will be considered "willful" if taken or omitted in the good faith belief that the act or omission was in, or not opposed to, the best interests of the Company.

(d) *Good Reason*. Executive may terminate his employment for "Good Reason" within 60 days after Executive has actual knowledge of the occurrence, without the written consent of Executive, of one of the following events that has not been cured within 30 days after written notice thereof has been given by Executive to the Company setting forth in reasonable detail the basis of the event (*provided* that such notice must be given to the Company within 30 days of the Executive becoming aware of such condition):

(i) the assignment to Executive of duties materially and adversely inconsistent with Executive's status as Chief Financial Officer of the Company or a material and adverse alteration in the nature of Executive's duties, responsibilities or authority;

(ii) a change in reporting responsibilities of the Executive (*provided,* that reporting or not reporting to Mr. Joseph Macnow will not be deemed a change in reporting responsibilities);

(iii) a material reduction by the Company in Executive's Base Salary;

(iv) the relocation of the Company's principal executive offices or Executive's own office location to a location outside of a 30-mile radius of its existing headquarters in New York City or Paramus, New Jersey; or

(v) the Company's material breach of any of the provisions of this Agreement.

Executive's continued employment during the 60-day period referred to above in this paragraph (d) shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

(e) *Without Cause*. The Company has the right to terminate Executive's employment hereunder without Cause by providing Executive with a Notice of Termination (as defined in Section 7). This means that, notwithstanding this Agreement, Executive's employment with the Company will be "at will."

(f) *Without Good Reason*. Executive will have the right to terminate his employment hereunder without Good Reason by providing the Company with a Notice of Termination.

7. Termination Procedure.

(a) *Notice of Termination*. Any termination of Executive's employment by the Company or by Executive during the Employment Period (other than termination pursuant to Section 6(a)) will be communicated by written Notice of Termination to the other party hereto in accordance with Section 13. For purposes of this Agreement, a "Notice of Termination" means a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated if the termination is based on Sections 6(b), (c) or (d).

(b) *Date of Termination*. "Date of Termination" means (i) if Executive's employment is terminated by his death, the date of his death, (ii) if Executive's employment is terminated pursuant to Section 6(b) (Disability), the date set forth in the Notice of Termination, and (iii) if Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given or any later date (within 30 days after the giving of such notice) set forth in such Notice of Termination; *provided*, however, that if such termination is due to a Notice of Termination by Executive, the Company shall have the right to accelerate such notice and make the Date of Termination the date of the Notice of Termination or such other date prior to the Executive's intended Date of Termination as the Company deems appropriate, which acceleration shall in no event be deemed a termination by the Company without Cause or constitute Good Reason.

(c) *Removal from any Boards and Position*. Upon the termination of Executive's employment with the Company for any reason, he shall be deemed to resign (i) from the board of directors of any subsidiary of the Company and/or any other board to which he has been appointed or nominated by or on behalf of the Company, and (ii) from any position with the Company or any subsidiary of the Company, including, but not limited to, as an officer of the Company and any of its subsidiaries.

8. Compensation upon Termination. This Section provides the exclusive payments and benefits to be paid or provided Executive as a result of his termination of employment.

(a) *Termination for Any Reason.* Following the termination of Executive's employment, regardless of the reason for such termination and including, without limitation, a termination of his employment by the Company for Cause or by Executive (other than for Good Reason) or upon expiration of the Employment Period, the Company will:

(i) pay Executive (or his estate in the event of his death) as soon as practicable following the Date of Termination any earned but unpaid Base Salary and any accrued unused vacation pay, through the Date of Termination,

(ii) reimburse Executive as soon as practicable following the Date of Termination for any amounts due Executive pursuant to Section 5(e) (unless such termination occurred as a result of misappropriation of funds); and

(iii) provide Executive with any compensation and/or benefits as may be due or payable to Executive in accordance with the terms and provisions of any employee benefit plan or programs of the Company.

Upon any termination of Executive's employment hereunder, except as otherwise provided herein, Executive (or his beneficiary, legal representative or estate, as the case may be, in the event of his death) shall be entitled to such rights in respect of any equity awards theretofore made to Executive, and to only such rights, as are provided by the plan or the award agreement pursuant to which such equity awards have been granted to Executive or other written agreement or arrangement between Executive and the Company.

Except as expressly provided in Sections 8(b) or (c) below, Executive shall not be entitled to anything further from the Company as a result of the termination of his employment, regardless of the reason for such termination.

(b) *Termination by Company without Cause or by Executive for Good Reason*. If Executive's employment is terminated by the Company without Cause or by Executive for Good Reason, Executive will be entitled to the payments and benefits provided in Section 8(a) hereof and, in addition, the Company will, subject to the following paragraph, pay to Executive a lump sum amount equal to the Severance Amount. The "Severance Amount" will be equal to the sum of the Executive's: (i) current Base Salary, and (ii) average annual incentive bonus earned by Executive, if any, for each of the two fiscal years immediately preceding the Date of Termination. From the Effective Date through the second anniversary thereof, the Severance Amount will not be less than $1.3 million.

As a condition to the payments and other benefits pursuant to the preceding paragraph (other than payments and benefits provided in Section 8(a) hereof), Executive must execute a separation and general release agreement (the "Release") in substantially the form typically used by the Company in connection with severance pay. Subject to Section 9 hereof, the lump sum payment set forth above shall be paid to Executive within 30 days after such Release becomes effective; *provided*, however, that if Executive's Date of Termination occurs on or after November 1 of a given calendar year, such

payment shall, subject to Section 9 hereof, be paid in January of the immediately following calendar year.

(c) *Disability.* In the event Executive's employment is terminated for Disability pursuant to Section 6(b), Executive will be entitled to the payments and benefits provided in Section 8(a) hereof.

(d) *Death.* If Executive's employment is terminated by his death, the Executive's beneficiary, legal representative or estate, as the case may be, will be entitled to the payments and benefits provided in Section 8(a) hereof.

9. 409A and Termination. Notwithstanding the foregoing, if necessary to comply with the restriction in Section 409A(a)(2)(B) of the Internal Revenue Code of 1986, as amended (the "Code") concerning payments to "specified employees," any payment on account of Executive's separation from service that would otherwise be due hereunder within six months after such separation shall nonetheless be delayed until the first business day of the seventh month following Executive's date of termination and the first such payment shall include the cumulative amount of any payments that would have been paid prior to such date if not for such restriction, together with interest on such cumulative amount during the period of such restriction at a rate, per annum, equal to the applicable federal short-term rate (compounded monthly) in effect under Section 1274(d) of the Code on the date of termination. For purposes of Section 8 hereof, Executive shall be a "specified employee" for the 12-month period beginning on the first day of the fourth month following each "Identification Date" if he is a "key employee" (as defined in Section 416(i) of the Code without regard to Section 416(i)(5) thereof) of the Company at any time during the 12-month period ending on the "Identification Date." For purposes of the foregoing, the Identification Date shall be December 31. Notwithstanding anything contained herein to the contrary, Executive shall not be considered to have terminated employment with the Company for purposes of Section 8 hereof unless he would be considered to have incurred a "termination of employment" from the Company within the meaning of Treasury Regulation §1.409A-1(h)(1)(ii).

10. Confidential Information, Ownership of Documents; Non-Competition.

(a) *Confidential Information*. During the Employment Period and for a period of one year thereafter, Executive shall hold in a fiduciary capacity for the benefit of the Company all trade secrets and confidential information, knowledge or data relating to the Company and its businesses and investments, which shall have been obtained by Executive during Executive's employment by the Company and which is not generally available public knowledge (other than by acts by Executive in violation of this Agreement). Except as may be required or appropriate in connection with his carrying out his duties under this Agreement, Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or any legal process, any statutory obligation or order of any court or statutory tribunal of competent jurisdiction, or as is necessary in connection with any adversarial proceeding against the Company (in which case Executive shall use his reasonable best efforts in cooperating with the Company in obtaining a protective order against disclosure by a court of competent jurisdiction), communicate or divulge any such trade secrets, information, knowledge or data to anyone other than the Company and those designated by the Company or on behalf of the Company in the furtherance of its business or to perform duties hereunder.

(b) *Removal of Documents; Rights to Products*. Executive may not remove any records, files, drawings, documents, models, equipment, and the like relating to the Company's business from the Company's premises without its written consent, unless such removal is in the furtherance of the Company's business or is in connection with Executive's carrying out his duties under this Agreement and, if so removed, they will be returned to the Company promptly after termination of Executive's employment hereunder, or otherwise promptly after removal if such removal occurs following termination of employment. Executive shall and hereby does assign to the Company all rights to trade secrets and other products relating to the Company's business developed by his alone or in conjunction with others at any time while employed by the Company. In the event of any conflict between the provision of this paragraph and of any applicable employee manual or similar policy of the Company, the provisions of this paragraph will govern.

(c) *Protection of Business*. During the Employment Period and until the first anniversary of the applicable Date of Termination the Executive will not (i) engage in any Competing Business (as defined below) or pursue or attempt to develop any project known to Executive and which the Company is pursuing, developing or attempting to develop as of the Date of Termination (a "Project"), directly or indirectly, alone, in association with or as a shareholder, principal, agent, partner, officer, director, employee or consultant of any other organization, (ii) divert to any entity which is engaged in any business conducted by the Company any Project, corporate opportunity or any customer of any of the Company, or (iii) solicit any officer, employee (other than secretarial staff) or consultant of any of the Company to leave the employ of any of the Company. Notwithstanding the preceding sentence, Executive shall not be prohibited from owning less than 1% percent of any publicly-traded corporation, whether or not such corporation is in competition with the Company. If, at any time, the provisions of this Section 10(c) shall be determined to be invalid or unenforceable, by reason of being vague or unreasonable as to duration or scope of activity, this Section 10(c) shall be considered divisible and shall become and be immediately amended to only such duration and scope of activity as shall be determined to be reasonable and enforceable by the court or other body having jurisdiction over the matter; and Executive agrees that this Section 10(c) as so amended shall be valid and binding as though any invalid or unenforceable provision had not been included herein. "Competing Business" means any business the primary business of which is being engaged in by the Company as a principal business of the Date of Termination (including, without limitation, the development, owning and operating of commercial real estate in the principal geographical markets in which the Company operates on the date of termination and the acquisition and disposition of commercial real estate in those markets for the purpose of development, owning and operating such real estate).

(d) *Injunctive Relief*. In the event of a breach or threatened breach of this Section 10, Executive agrees that the Company shall be entitled to injunctive relief in a court of appropriate jurisdiction to remedy any such breach or threatened breach, Executive acknowledging that damages would be inadequate and insufficient.

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(e) *Continuing Operation*. Except as specifically provided in this Section 10, the termination of Executive's employment or of this Agreement shall have no effect on the continuing operation of this Section 10.

11. Indemnification. The Company agrees that if Executive is made a party to or threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "Proceeding"), by reason of the fact that Executive is or was a trustee, director or officer of the Company or is or was serving at the request of the Company, Alexander's, Inc. or any subsidiary or either thereof as a trustee, director, officer, member, employee or agent of another corporation or a partnership, joint venture, trust or other enterprise, including, without limitation, service with respect to employee benefit plans, whether or not the basis of such Proceeding is alleged action in an official capacity as a trustee, director, officer, member, employee or agent while serving as a trustee, director, officer, member, employee or agent, Executive shall be indemnified and held harmless by the Company to the fullest extent authorized by Maryland law (including the advancement of applicable, reasonable legal fees and expenses), as the same exists or may hereafter be amended, against all Expenses incurred or suffered by Executive in connection therewith, and such indemnification shall continue as to Executive even if Executive has ceased to be an officer, director, trustee or agent, or is no longer employed by the Company or Alexander's, Inc. and shall inure to the benefit of his heirs, executors and administrators.

12. Successors; Binding Agreement.

(a) *Company's Successors*. No rights or obligations of the Company under this Agreement may be assigned or transferred except that the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place.

(b) *Executive's Successors*. No rights or obligations of Executive under this Agreement may be assigned or transferred by Executive other than his rights to payments or benefits hereunder, which may be transferred only by will or the laws of descent and distribution. If Executive should die following his Date of Termination while any amounts would still be payable to his hereunder if he had continued to live, all such amounts unless otherwise provided herein shall be paid in accordance with the terms of this Agreement to such person or persons so appointed in writing by Executive, or otherwise to his legal representatives or estate.

13. Notice. For the purposes of this Agreement, notices, demands and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered either personally or by United States certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive:

Stephen Theriot
51 Greenbriar Drive
Summit, New Jersey 07091
(908-273-4350)

If to the Company:

Vornado Realty Trust
888 Seventh Avenue
New York, New York 10106
Tel: 212-894-7000

Attention: Joseph Macnow and Alan J. Rice

14. Resolution of Differences Over Breaches of Agreement. The parties shall use good faith efforts to resolve any controversy or claim arising out of, or relating to this Agreement or the breach thereof, first in accordance with the Company's internal review procedures, except that this requirement shall not apply to any claim or dispute under or relating to Section 10 of this Agreement. If despite their good faith efforts, the parties are unable to resolve such controversy or claim through the Company's internal review procedures, then such controversy or claim shall be resolved by arbitration in Manhattan, New York, in accordance with the rules then applicable of the American Arbitration Association, and judgment upon the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof. If any contest or dispute shall arise between the Company and Executive regarding any provision of this Agreement, the Company shall reimburse Executive for all legal fees and expenses reasonably incurred by Executive in connection with such contest or dispute, but only if Executive is successful in respect of substantially all of Executive's claims brought and pursued in connection with such contest or dispute.

15. Miscellaneous.

(a) *Amendments.* No provisions of this Agreement may be amended, modified, or waived unless such amendment or modification is agreed to in writing signed by Executive and by a duly authorized officer of the Company, and such waiver is set forth in writing and signed by the party to be charged. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without regard to its conflicts of law principles. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

(b) *Full Settlement.* The Company's obligations to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder will not (absent fraud or willful misconduct or a termination for Cause) be affected by any set-offs, counterclaims, recoupment, defense, or other claim, right or action that the Company may have against Executive or others. In no event will the Executive be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to the Executive under any of the provisions of this Agreement and such amounts will not be reduced whether or not the Executive obtains other employment.

16. Entire Agreement. This Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto in respect of such subject matter. Any other prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and cancelled, other than any equity agreements or any compensatory plan or program in which the Executive is a participant on the Commencement Date.

17. 409A Compliance.

(a) This Agreement is intended to comply with the requirements of Section 409A of the Code and regulations promulgated thereunder ("Section 409A"). To the extent that any provision in this Agreement is ambiguous as to its compliance with Section 409A or to the extent any provision in this Agreement must be modified to comply with Section 409A (including, without limitation, Treasury Regulation 1.409A-3(c)), such provision shall be read, or shall be modified (with the mutual consent of the parties, which consent shall not be unreasonably withheld), as the case may be, in such a manner so that all payments due under this Agreement shall comply with Section 409A. For purposes of section 409A, each payment made under this Agreement shall be treated as a separate payment. In no event may Executive, directly or indirectly, designate the calendar year of payment.

(b) All reimbursements provided under this Agreement shall be made or provided in accordance with the requirements of section 409A, including, where applicable, the requirement that (i) any reimbursement is for expenses incurred during Executive's lifetime (or during a shorter period of time specified in this Agreement), (ii) the amount of expenses eligible for reimbursement during a calendar year may not affect the expenses eligible for reimbursement in any other calendar year, (iii) the reimbursement of an eligible expense will be made on or before the last day of the calendar year following the year in which the expense is incurred, and (iv) the right to reimbursement is not subject to liquidation or exchange for another benefit.

(c) Executive further acknowledges that any tax liability incurred by Executive under Section 409A of the Code is solely the responsibility of Executive.

18. Representations. Executive represents and warrants to the Company that he is under no contractual or other binding legal restriction which would prohibit his from entering into and performing under this Agreement or that would limit the performance his duties under this Agreement.

19. Withholding Taxes. The Company may withhold from any amounts or benefits payable under this Agreement income taxes that are required to be withheld pursuant to any applicable law or regulation.

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20. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. This Agreement shall become binding when one or more counterparts hereof, individually or taken together, shall bear the signatures of all of the parties reflected hereon as the signatories. Photographic, faxed or PDF copies of such signed counterparts may be used in lieu of the originals for any purpose.

*[signature page follows]*

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**IN WITNESS WHEREOF,** the parties hereto have executed this Agreement on the date first above written.

VORNADO REALTY TRUST

By: /s/ Joseph Macnow
Joseph Macnow
Executive Vice President – Finance and Admnistration

EXECUTIVE

/s/ Stephen Theriot
Stephen Theriot

**EXHIBIT 15.1**

August 5, 2013

Vornado Realty Trust
New York, New York

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Vornado Realty Trust for the periods ended June 30, 2013, and 2012, as indicated in our report dated August 5, 2013; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2013, is incorporated by reference in the following registration statements of Vornado Realty Trust:

Registration Statement No. 333-68462 on Form S-8
Amendment No.1 to Registration Statement No. 333-36080 on Form S-3
Registration Statement No. 333-64015 on Form S-3
Amendment No.1 to Registration Statement No. 333-50095 on Form S-3
Registration Statement No. 333-52573 on Form S-8
Registration Statement No. 333-29011 on Form S-8
Registration Statement No. 333-09159 on Form S-8
Registration Statement No. 333-76327 on Form S-3
Amendment No.1 to Registration Statement No. 333-89667 on Form S-3
Registration Statement No. 333-81497 on Form S-8
Registration Statement No. 333-102216 on Form S-8
Amendment No.1 to Registration Statement No. 333-102215 on Form S-3
Amendment No.1 to Registration Statement No. 333-102217 on Form S-3
Registration Statement No. 333-105838 on Form S-3
Registration Statement No. 333-107024 on Form S-3
Registration Statement No. 333-109661 on Form S-3
Registration Statement No. 333-114146 on Form S-3
Registration Statement No. 333-114807 on Form S-3
Registration Statement No. 333-121929 on Form S-3
Amendment No.1 to Registration Statement No. 333-120384 on Form S-3
Registration Statement No. 333-126963 on Form S-3
Registration Statement No. 333-139646 on Form S-3
Registration Statement No. 333-141162 on Form S-3
Registration Statement No. 333-150592 on Form S-3
Registration Statement No. 333-150593 on Form S-8
Registration Statement No. 333-166856 on Form S-3
Registration Statement No. 333-172880 on Form S-8

and in the following joint registration statements of Vornado Realty Trust and Vornado Realty L.P.:

Amendment No. 4 to Registration Statement No. 333-40787 on Form S-3
Amendment No. 4 to Registration Statement No. 333-29013 on Form S-3
Registration Statement No. 333-108138 on Form S-3
Registration Statement No. 333-122306 on Form S-3
Registration Statement No. 333-138367 on Form S-3
Registration Statement No. 333-162775 on Form S-3
Registration Statement No. 333-180640 on Form S-3

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey

**EXHIBIT 31.1**

**CERTIFICATION**

I, Steven Roth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vornado Realty Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure control and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 5, 2013

/s/ Steven Roth

Steven Roth
Chairman of the Board and Chief
Executive Officer

**EXHIBIT 31.2**

**CERTIFICATION**

I, Stephen W. Theriot, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Vornado Realty Trust;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure control and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

August 5, 2013

/s/ Stephen W. Theriot

Stephen W. Theriot
Chief Financial Officer

**EXHIBIT 32.1**

## CERTIFICATION

### Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
### (Subsection (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Vornado Realty Trust (the "Company"), hereby certifies, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for quarter ended June 30, 2013 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| August 5, 2013 | | /s/ Steven Roth |
|---|---|---|
| | Name: | Steven Roth |
| | Title: | Chairman of the Board and Chief Executive Officer |

**EXHIBIT 32.2**

## CERTIFICATION

**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
**(Subsection (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Vornado Realty Trust (the "Company"), hereby certifies, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for quarter ended June 30, 2013 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

August 5, 2013

| | |
|---|---|
| | /s/ Stephen W. Theriot |
| Name: | Stephen W. Theriot |
| Title: | Chief Financial Officer |