

Vornado Announces its Share of Toys “R” Us’ Third Quarter Financial Results

Company Release - 12/23/2014

PARAMUS, N.J.--(BUSINESS WIRE)-- Vornado Realty Trust (NYSE:VNO) records its proportionate share of Toys “R” Us’ results based on purchase price accounting, which differs from Toys’ publicly reported historical accounting. On December 11, 2014, Toys announced that its third quarter net loss was \$213,000,000, which on a purchase price accounting basis is a net loss of \$99,000,000. Because Vornado discontinued applying the equity method of accounting for its Toys’ investment when the carrying amount was reduced to zero, Vornado’s 32.6% share of this net loss will not be recognized in Vornado’s fourth quarter ended December 31, 2014. Vornado’s share of Toys’ FFO will be treated as non-comparable in all periods presented.

Attached is a summary of Toys’ financial results and Vornado’s 32.6% share of its equity in Toys’ net loss, as well as reconciliations of net income to earnings before interest, taxes, depreciation and amortization (“EBITDA”) and FFO.

Vornado Realty Trust is a fully-integrated equity real estate investment trust.

Certain statements contained herein may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, risks associated with the timing of and costs associated with property improvements, financing commitments and general competitive factors.

Toys “R” Us, Inc.
Condensed Consolidated Statements of Operations – Unaudited

| For the Quarter Ended | |
|-----------------------|------------------|
| November 1, 2014 | November 2, 2013 |
| Results on | Results on |

| (Amounts in thousands) | Results on a Historical Basis | Vornado's Purchase Price Accounting Basis | Vornado's Purchase Price Accounting Basis |
|--|-------------------------------------|--|--|
| Net sales | \$ 2,459,000 | \$ 2,459,000 | \$ 2,491,000 |
| Cost of sales | <u>1,551,000</u> | <u>1,551,000</u> | <u>1,595,000</u> |
| Gross margin | <u>908,000</u> | <u>908,000</u> | <u>896,000</u> |
| Selling, general and administrative expenses | 931,000 | 935,900 | 962,800 |
| Depreciation and amortization | 86,000 | 90,800 | 97,400 |
| Other income, net | <u>(16,000)</u> | <u>(14,700)</u> | <u>(15,600)</u> |
| Total operating expenses | <u>1,001,000</u> | <u>1,012,000</u> | <u>1,044,600</u> |
| Operating loss | (93,000) | (104,000) | (148,600) |
| Interest expense | (129,000) | (130,900) | (190,800) |
| Interest income | 1,000 | 1,000 | 2,000 |
| Loss before income taxes | <u>(221,000)</u> | <u>(233,900)</u> | <u>(337,400)</u> |
| Income tax benefit (expense) | 9,000 | 135,900 | (69,400) |
| Net loss | <u>(212,000)</u> | <u>(98,000)</u> | <u>(406,800)</u> |
| Less: Net earnings attributable to noncontrolling interest | <u>(1,000)</u> | <u>(1,000)</u> | <u>-</u> |
| Net loss attributable to Toys "R" Us, Inc. | <u>\$ (213,000)</u> | <u>\$ (99,000)</u> | <u>\$ (406,800)</u> |
| Vornado's 32.6% equity in Toys' net loss | | \$ (32,304) | \$ (132,698) |
| Adjustment to discontinue application of the equity method once the investment balance is reduced to zero | | 29,592 | - |
| Amortization of Vornado's basis difference, net of tax | | 2,712 | - |
| Management fee from Toys, net | | 606 | 1,847 |
| Total Vornado net income (loss) from its investment in Toys | | <u>\$ 606</u> | <u>\$ (130,851)</u> |

See page 3 for a reconciliation of net income (loss) to FFO and (negative FFO).

| | | | |
|---|-----------|------------|--------------------|
| Reconciliation of Vornado's net income (loss) from its investment in Toys to EBITDA (1) and (negative EBITDA): | | | |
| Net income (loss) | \$ | 606 | \$ (130,851) |
| Interest and debt expense | | - | 62,239 |
| Depreciation and amortization | | - | 31,446 |
| Income tax expense | | - | 22,573 |
| Vornado's share of Toys' EBITDA (1) and (negative EBITDA) | <u>\$</u> | <u>606</u> | <u>\$ (14,593)</u> |

(1) EBITDA represents "Earnings Before Interest, Taxes, Depreciation and Amortization." Management considers EBITDA a supplemental measure for making decisions and assessing the unlevered performance of its segments as it relates to the total return on assets as opposed to the levered return on equity. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.

Toys "R" Us, Inc.
Funds From Operations - Unaudited

| (Amounts in thousands) | For the Quarter Ended | |
|---|-----------------------|---------------------|
| | November 1, 2014 | November 2, 2013 |
| Reconciliation of Vornado's net income (loss) from its investment in Toys to FFO ((1)) and (negative FFO): | | |
| Net income (loss) | \$ 606 | \$ (130,851) |
| Depreciation and amortization of real property | - | 16,506 |
| Real estate impairment losses | - | 456 |
| Income tax effect of above adjustments | - | (5,937) |
| Vornado's share of Toys' FFO (1) and (negative FFO) | <u>\$ 606</u> | <u>\$ (119,826)</u> |

(1) 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 gains 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.

Vornado Realty Trust

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Source: Vornado Realty Trust