

VORNADO REALTY TRUST
Form 10-Q
November 02, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

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

Or

**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
(I.R.S. Employer Identification Number)

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(State or other jurisdiction of incorporation or organization)

888 Seventh Avenue, New York, New York
(Address of principal executive offices)

10019
(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 No

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 No

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.

Large Accelerated Filer

Non-Accelerated Filer (Do not check if smaller reporting company)

Accelerated Filer

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 No

As of September 30, 2010, 182,670,995 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)	September 30, 2010	December 31, 2009
ASSETS		
Real estate, at cost:		
Land	\$ 4,619,205	\$ 4,606,065
Buildings and improvements	13,092,999	12,902,086
Development costs and construction in progress	202,841	313,310
Leasehold improvements and equipment	128,004	128,056
Total	18,043,049	17,949,517
Less accumulated depreciation and amortization	(2,772,079)	(2,494,441)
Real estate, net	15,270,970	15,455,076
Real Estate Fund investments (see Note 4)	62,500	-
Cash and cash equivalents	846,254	535,479
Restricted cash	148,246	293,950
Short-term investments	-	40,000
Marketable securities	355,800	380,652
Accounts receivable, net of allowance for doubtful accounts of \$56,894 and \$46,708	192,895	157,325
Investments in partially owned entities	953,011	799,832
Investment in Toys "R" Us	457,141	409,453
Mezzanine loans receivable, net of allowance of \$133,216 and \$190,738	144,473	203,286
Receivable arising from the straight-lining of rents, net of allowance of \$5,901 and \$4,680	726,248	681,526
Deferred leasing and financing costs, net of accumulated amortization of \$214,199 and \$183,224	353,847	311,825
Due from officers	13,182	13,150
Identified intangible assets, net of accumulated amortization of \$354,199 and \$312,957	385,337	442,510
Other assets	724,224	461,408
	\$ 20,634,128	\$ 20,185,472
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Notes and mortgages payable	\$ 8,992,805	\$ 8,445,766
Senior unsecured notes	1,231,196	711,716
Exchangeable senior debentures	489,332	484,457
Convertible senior debentures	396,714	445,458
Revolving credit facility debt	-	852,218
Accounts payable and accrued expenses	507,755	475,242

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

See notes to the consolidated financial statements (unaudited).

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

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

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Income before income taxes	121,630	117,790	441,938	238,397
Income tax expense	(5,498)	(5,267)	(16,051)	(15,773)
Income from continuing operations	116,132	112,523	425,887	222,624
Income from discontinued operations	-	43,321	-	49,276
Net income	116,132	155,844	425,887	271,900
Net income attributable to noncontrolling interests, including unit distributions	(11,880)	(15,227)	(34,977)	(28,808)
Net income attributable to Vornado	104,252	140,617	390,910	243,092
Preferred share dividends	(13,442)	(14,269)	(41,975)	(42,807)
Discount on preferred share redemptions	4,382	-	4,382	-
NET INCOME attributable to common shareholders	\$ 95,192	\$ 126,348	\$ 353,317	\$ 200,285

INCOME PER COMMON SHARE - BASIC:

Income from continuing operations, net	\$ 0.52	\$ 0.48	\$ 1.94	\$ 0.91
Income from discontinued operations, net	-	0.23	-	0.27
Net income per common share	\$ 0.52	\$ 0.71	\$ 1.94	\$ 1.18
Weighted average shares	182,462	178,689	182,014	168,820

INCOME PER COMMON SHARE - DILUTED:

Income from continuing operations, net	\$ 0.52	\$ 0.48	\$ 1.92	\$ 0.90
Income from discontinued operations, net	-	0.22	-	0.27
Net income per common share	\$ 0.52	\$ 0.70	\$ 1.92	\$ 1.17
Weighted average shares	184,168	180,977	183,826	170,378

DIVIDENDS PER COMMON SHARE

	\$ 0.65	\$ 0.65	\$ 1.95	\$ 2.55
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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 Capital	Accumulated			Total Equity
	Shares	Amount	Shares	Amount		Earnings Less Than Distributions	Other Comprehensive Income (Loss)	Non-controlling Interests	
Balance, December 31, 2008	33,954	\$ 823,807	155,286	\$ 6,195	\$ 6,025,976	\$ (1,047,340)	\$ (6,899)	\$ 412,913	\$ 6,214,652
Net income (loss)	-	-	-	-	-	243,092	-	(3,442)	239,650
Dividends paid on common shares	-	-	5,736	230	236,920	(431,237)	-	-	(194,087)
Dividends paid on preferred shares	-	-	-	-	-	(42,809)	-	-	(42,809)
Common shares issued:									
In connection with April 2009 public offering	-	-	17,250	690	709,536	-	-	-	710,226
Upon redemption of Class A units, at redemption value	-	-	1,222	48	53,043	-	-	-	53,091
Under employees' share option plan	-	-	28	(14)	1,219	(440)	-	-	765
Conversion of Series A preferred shares to common shares	(2)	(89)	2	-	89	-	-	-	-
Deferred compensation									

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

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

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

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

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

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)
(UNAUDITED)

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

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Organization

Vornado Realty Trust (“Vornado”) is a fully integrated real estate investment trust (“REIT”) and conducts its business through Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). Vornado is the sole general partner of, and owned approximately 92.8% of the common limited partnership interest in the Operating Partnership at September 30, 2010. All references to “we,” “us,” “our,” the “Company” and “Vornado” refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

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

2. Basis of Presentation

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

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

3. Recently Issued Accounting Literature

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

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

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Vornado Capital Partners, L.P.

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

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

5. Derivative Instruments and Marketable Securities

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

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

In September 2010, we acquired 2,684,010 common shares at an average price of \$26.87 per share, or \$72,107,000 in the aggregate. These shares are included as a component of marketable equity securities on our consolidated balance sheet and are classified as available for sale. Gains or losses resulting from the mark-to-market of these shares are

recognized as an increase or decrease in accumulated other comprehensive income (a component of shareholders equity on our consolidated balance sheet) and not recognized in income. In the quarter ended September 30, 2010, we recognized an \$845,000 unrealized gain based on J.C. Penney's September 30, 2010 closing share price of \$27.18 per share. In October 2010, we acquired an additional 400,000 common shares at an average price of \$27.46 per share, or \$10,983,000 in the aggregate. Accordingly, we currently own 3,084,010 common shares at an average price of \$26.94 per share, or \$83,090,000 in the aggregate.

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

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

VORNADO REALTY TRUST**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****5. Derivative Instruments and Marketable Securities - continued***Marketable Securities*

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

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

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

6. Investments in Partially Owned Entities

LNR Property Corporation (LNR)

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

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

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

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

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities - continued

Toys R Us (Toys)

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

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

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

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

(Amounts in thousands)

Balance Sheet:

	Balance as of	
	July 31, 2010	October 31, 2009
Assets	\$ 11,243,000	\$ 12,589,000
Liabilities	9,717,000	11,198,000
Noncontrolling interests	-	112,000

Toys R Us, Inc. equity		1,526,000	1,279,000
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Income Statement:	For the Three Months Ended		For the Nine Months Ended	
	July 31, 2010	August 1, 2009	July 31, 2010	August 1, 2009
Total revenues	\$ 2,565,000	\$ 2,567,000	\$ 11,030,000	\$ 10,505,000
Net (loss) income attributable to Toys	\$ (15,500)	\$ 62,000	\$ 292,500	\$ 304,000

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

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

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

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities - continued

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

(Amounts in thousands)	Balance as of			
	September 30, 2010	December 31, 2009		
Investments:				
Toys	\$ 457,141	\$ 409,453		
Alexander's	\$ 199,688	\$ 193,174		
Partially owned office buildings	155,754	158,444		
LNR (see page 10)	131,000	-		
India real estate ventures	126,211	93,322		
Lexington	51,434	55,106		
Other equity method investments	288,924	299,786		
	\$ 953,011	\$ 799,832		
(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
Our Share of Net (Loss) Income:	2010	2009	2010	2009
Toys:				
32.7% share of:				
Equity in net (loss) income before income taxes	\$ (32,574)	\$ (15,985) ⁽¹⁾	\$ 93,662	\$ 106,545 ⁽¹⁾
Income tax benefit (expense)	27,501	36,122	1,914	(7,335)
Equity in net (loss) income	(5,073)	20,137 ⁽¹⁾	95,576	99,210 ⁽¹⁾
Non-cash purchase price accounting adjustments	-	-	-	13,946
Interest and other income	2,516	1,940	6,733	5,741
	\$ (2,557)	\$ 22,077	\$ 102,309	\$ 118,897

Alexander's – 32.4% share of:

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

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

- (1) Includes \$10,200 for our share of income from a litigation settlement.
- (2) The three and nine months ended September 30, 2009 include \$14,541 and \$19,121, respectively, for our share of non-cash impairment losses recognized by Lexington.
- (3) Includes a \$5,998 net gain resulting from Lexington's March 2010 stock issuance.
- (4) Represents equity in net income or loss of partially owned office buildings in New York and Washington, DC, the Monmouth Mall, Verde Realty Operating Partnership, 85 10th Avenue Associates and others.
- (5) Includes \$7,650 of expense for our share of the Downtown Crossing, Boston lease termination payment.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities continued

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

(Amounts in thousands)	Maturity	Interest Rate at September 30, 2010	100% of Partially Owned Entities September 30, 2010	Debt at December 31, 2009
Toys (32.7% interest) (as of July 31, 2010 and October 31, 2009, respectively):				
Senior unsecured notes (Face value \$950,000)	07/17	10.75 %	\$ 927,499	\$ 925,931
Senior unsecured notes (Face value \$725,000)	12/17	8.50 %	715,339	-
\$1.6 billion credit facility	05/12	5.25 %	52,510	418,777
\$800 million secured term loan facility	07/12	4.51 %	798,433	797,911
Senior U.K. real estate facility	04/13	5.02 %	550,037	578,982
7.625% bonds (Face value \$500,000)	08/11			