

VORNADO REALTY TRUST  
Form 10-Q  
August 01, 2016

**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 **June 30, 2016**  
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**

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(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

**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.

- |  |  |
|--|--|
| <input checked="" type="checkbox"/> Large Accelerated Filer                                | <input type="checkbox"/> Accelerated Filer         |
| <input type="checkbox"/> Non-Accelerated Filer (Do not check if smaller reporting company) | <input type="checkbox"/> 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 June 30, 2016, 188,825,520 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)	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>ASSETS</b>		
Real estate, at cost:		
Land	\$ 4,154,201	\$ 4,164,799
Buildings and improvements	12,541,161	12,582,671
Development costs and construction in progress	1,302,108	1,226,637
Leasehold improvements and equipment	112,096	116,030
Total	18,109,566	18,090,137
Less accumulated depreciation and amortization	(3,374,867)	(3,418,267)
Real estate, net	14,734,699	14,671,870
Cash and cash equivalents	1,644,067	1,835,707
Restricted cash	94,628	107,799
Marketable securities	194,489	150,997
Tenant and other receivables, net of allowance for doubtful accounts of \$11,260 and \$11,908	95,623	98,062
Investments in partially owned entities	1,499,792	1,550,422
Real estate fund investments	524,150	574,761
Receivable arising from the straight-lining of rents, net of allowance of \$2,489 and \$2,751	991,953	931,245
Deferred leasing costs, net of accumulated amortization of \$227,015 and \$218,239	462,649	480,421
Identified intangible assets, net of accumulated amortization of \$194,463 and \$187,360	210,010	227,901
Assets related to discontinued operations	8,678	37,020
Other assets	612,992	477,088
	\$ 21,073,730	\$ 21,143,293
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>		
Mortgages payable, net	\$ 9,746,818	\$ 9,513,713
Senior unsecured notes, net	844,868	844,159
Unsecured revolving credit facilities	115,630	550,000
Unsecured term loan, net	371,455	183,138
Accounts payable and accrued expenses	480,094	443,955
Deferred revenue	314,367	346,119
Deferred compensation plan	119,292	117,475
Liabilities related to discontinued operations	8,104	12,470
Other liabilities	480,030	426,965

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Total liabilities	12,480,658	12,437,994
Commitments and contingencies		
Redeemable noncontrolling interests:		
Class A units - 12,385,829 and 12,242,820 units outstanding	1,240,069	1,223,793
Series D cumulative redeemable preferred units - 177,101 units outstanding	5,428	5,428
Total redeemable noncontrolling interests	1,245,497	1,229,221
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,676,629 shares	1,276,954	1,276,954
Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 188,825,520 and 188,576,853 shares	7,531	7,521
Additional capital	7,135,571	7,132,979
Earnings less than distributions	(1,898,505)	(1,766,780)
Accumulated other comprehensive income	72,556	46,921
Total Vornado shareholders' equity	6,594,107	6,697,595
Noncontrolling interests in consolidated subsidiaries	753,468	778,483
Total equity	7,347,575	7,476,078
	\$ 21,073,730	\$ 21,143,293

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
<b>REVENUES:</b>				
Property rentals	\$ 527,178	\$ 514,843	\$ 1,046,670	\$ 1,015,117
Tenant expense reimbursements	60,841	62,215	120,416	129,136
Fee and other income	33,689	39,230	67,659	78,837
Total revenues	621,708	616,288	1,234,745	1,223,090
<b>EXPENSES:</b>				
Operating	245,138	242,690	501,487	497,183
Depreciation and amortization	141,313	136,957	284,270	261,079
General and administrative	45,564	39,189	94,268	97,681
Impairment loss and acquisition and transaction related costs	2,879	4,061	168,186	6,042
Total expenses	434,894	422,897	1,048,211	861,985
Operating income	186,814	193,391	186,534	361,105
Income (loss) from partially owned entities	642	(5,641)	(3,598)	(8,384)
Income from real estate fund investments	16,389	26,368	27,673	50,457
Interest and other investment income, net	10,236	5,666	13,754	16,458
Interest and debt expense	(105,576)	(92,092)	(206,065)	(183,766)
Net gain on disposition of wholly owned and partially owned assets	159,511	-	160,225	1,860
Income before income taxes	268,016	127,692	178,523	237,730
Income tax (expense) benefit	(2,109)	88,072	(4,940)	87,101
Income from continuing operations	265,907	215,764	173,583	324,831
Income (loss) from discontinued operations	2,475	(364)	3,191	15,815
Net income	268,382	215,400	176,774	340,646
Less net income attributable to noncontrolling interests in:				
Consolidated subsidiaries	(13,025)	(19,186)	(22,703)	(35,068)
Operating Partnership	(14,531)	(10,198)	(7,044)	(15,485)
Net income attributable to Vornado	240,826	186,016	147,027	290,093
Preferred share dividends	(20,363)	(20,365)	(40,727)	(39,849)
<b>NET INCOME attributable to common shareholders</b>	<b>\$ 220,463</b>	<b>\$ 165,651</b>	<b>\$ 106,300</b>	<b>\$ 250,244</b>
<b>INCOME PER COMMON SHARE - BASIC:</b>				
Income from continuing operations, net	\$ 1.16	\$ 0.88	\$ 0.54	\$ 1.25
	0.01	-	0.02	0.08



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Income from discontinued operations, net				
Net income per common share	\$ 1.17	\$ 0.88	\$ 0.56	\$ 1.33
Weighted average shares outstanding	188,772	188,365	188,715	188,183

**INCOME PER COMMON SHARE - DILUTED:**

Income from continuing operations, net	\$ 1.15	\$ 0.87	\$ 0.54	\$ 1.24
Income from discontinued operations, net	0.01	-	0.02	0.08
Net income per common share	\$ 1.16	\$ 0.87	\$ 0.56	\$ 1.32
Weighted average shares outstanding	189,885	189,600	190,000	189,775

<b>DIVIDENDS PER COMMON SHARE</b>	\$ 0.63	\$ 0.63	\$ 1.26	\$ 1.26
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See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 268,382	\$ 215,400	\$ 176,774	\$ 340,646
Other comprehensive income (loss):				
Increase (reduction) in unrealized net gain on				
available-for-sale securities	28,019	(25,000)	39,113	(46,332)
Pro rata share of other comprehensive loss of				
nonconsolidated subsidiaries	(628)	(1,191)	(622)	(1,034)
(Reduction) increase in value of interest rate swaps and other	(6,976)	2,848	(11,171)	2,077
Comprehensive income	288,797	192,057	204,094	295,357
Less comprehensive income attributable to noncontrolling interests	(28,814)	(28,037)	(31,432)	(47,918)
Comprehensive income attributable to Vornado	\$ 259,983	\$ 164,020	\$ 172,662	\$ 247,439

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	Other	Non- Accumulated controlling Interests in Consolidated	Total
	Shares	Amount	Shares	Amount	Capital	Less Than Distributions	Comprehensive Income	Subsidiaries	Equity
<b>Balance, December 31, 2015</b>	52,677	\$1,276,954	188,577	\$7,521	\$7,132,979	\$(1,766,780)	\$ 46,921	\$ 778,483	\$7,476,078
Net income attributable to Vornado	-	-	-	-	-	147,027	-	-	147,027
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	22,703	22,703
Dividends on common shares	-	-	-	-	-	(237,832)	-	-	(237,832)
Dividends on preferred shares	-	-	-	-	-	(40,727)	-	-	(40,727)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	195	8	18,200	-	-	-	18,208
Under employees' share option plan	-	-	38	1	3,092	-	-	-	3,093
Under dividend reinvestment plan	-	-	8	-	717	-	-	-	717
Contributions: Other	-	-	-	-	-	-	-	19,674	19,674
Distributions:									

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Real estate fund investments	-	-	-	-	-	-	-	(56,533)	(56,533)
Other	-	-	-	-	-	-	-	(10,970)	(10,970)
Deferred compensation shares and options	-	-	7	1	953	(186)	-	-	768
Increase in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	39,113	-	39,113
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(622)	-	(622)
Reduction in value of interest rate swaps	-	-	-	-	-	-	(11,170)	-	(11,170)
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(20,369)	-	-	-	(20,369)
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	(1,685)	-	(1,685)
Other	-	-	1	-	(1)	(7)	(1)	111	102
<b>Balance, June 30, 2016</b>	52,677	\$1,276,954	188,826	\$7,531	\$7,135,571	\$(1,898,505)	\$ 72,556	\$ 753,468	\$7,347,575

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)

	Preferred Shares		Common Shares		Additional	Earnings	Other	Non- Accumulated controlling Interests in Consolidated	Total
	Shares	Amount	Shares	Amount	Capital	Less Than Distributions	Comprehensive Income	Subsidiaries	Equity
<b>Balance, December 31, 2014</b>	52,679	\$1,277,026	187,887	\$7,493	\$6,873,025	\$(1,505,385)	\$ 93,267	\$ 743,956	\$7,489,382
Net income attributable to Vornado	-	-	-	-	-	290,093	-	-	290,093
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	35,068	35,068
Distribution of Urban Edge Properties	-	-	-	-	-	(464,262)	-	(341)	(464,603)
Dividends on common shares	-	-	-	-	-	(237,160)	-	-	(237,160)
Dividends on preferred shares	-	-	-	-	-	(39,849)	-	-	(39,849)
Common shares issued: Upon redemption of Class A units, at redemption value	-	-	400	16	43,262	-	-	-	43,278
Under employees' share option plan	-	-	195	7	12,972	(2,579)	-	-	10,400
Under dividend reinvestment plan	-	-	7	-	701	-	-	-	701

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Contributions:									
Real estate fund investments	-	-	-	-	-	-	-	51,725	51,725
Distributions:									
Real estate fund investments	-	-	-	-	-	-	-	(62,495)	(62,495)
Other	-	-	-	-	-	-	-	(255)	(255)
Conversion of Series A preferred shares to common shares	(1)	(16)	1	-	16	-	-	-	-
Deferred compensation shares and options	-	-	7	1	1,653	(359)	-	-	1,295
Reduction in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	(46,332)	-	(46,332)
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(1,034)	-	(1,034)
Increase in value of interest rate swap	-	-	-	-	-	-	2,073	-	2,073
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	229,521	-	-	-	229,521
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	2,635	-	2,635
Other	-	-	-	-	-	955	4	(92)	867
<b>Balance, June 30, 2015</b>	52,678	\$1,277,010	188,497	\$7,517	\$7,161,150	\$(1,958,546)	\$ 50,613	\$ 767,566	\$7,305,310

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)

	<b>For the Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 176,774	\$ 340,646
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	299,541	272,942
Real estate impairment losses	160,700	256
Net gain on disposition of wholly owned and partially owned assets	(160,225)	(1,860)
Straight-lining of rental income	(83,883)	(64,121)
Return of capital from real estate fund investments	71,888	83,443
Distributions of income from partially owned entities	46,500	37,821
Amortization of below-market leases, net	(29,811)	(26,132)
Other non-cash adjustments	23,049	26,569
Net realized and unrealized gains on real estate fund investments	(21,277)	(41,857)
Loss from partially owned entities	3,598	7,636
Net gains on sale of real estate and other	(2,210)	(32,243)
Reversal of allowance for deferred tax assets	-	(90,030)
Changes in operating assets and liabilities:		
Real estate fund investments	-	(95,000)
Tenant and other receivables, net	2,358	(5,051)
Prepaid assets	(131,927)	(138,473)
Other assets	(29,303)	(46,858)
Accounts payable and accrued expenses	6,634	(26,440)
Other liabilities	(9,113)	(16,632)
Net cash provided by operating activities	323,293	184,616
<b>Cash Flows from Investing Activities:</b>		
Development costs and construction in progress	(277,214)	(200,970)
Additions to real estate	(170,265)	(137,528)
Proceeds from sales of real estate and related investments	130,249	334,725
Investments in partially owned entities	(90,659)	(137,465)
Distributions of capital from partially owned entities	87,977	29,666
Acquisitions of real estate and other	(46,807)	(381,001)
Net deconsolidation of 7 West 34th Street	(42,000)	-
Investments in loans receivable and other	(11,700)	(23,919)
Restricted cash	(7,483)	25,118
Purchases of marketable securities	(4,379)	-
Proceeds from sales and repayments of mortgage and mezzanine loans receivable and other	22	16,772



Net cash used in investing activities	(432,259)	(474,602)
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See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)

	<b>For the Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash Flows from Financing Activities:</b>		
Proceeds from borrowings	\$ 1,325,246	\$ 1,746,460
Repayments of borrowings	(1,032,115)	(1,607,574)
Dividends paid on common shares	(237,832)	(237,160)
Distributions to noncontrolling interests	(83,266)	(77,447)
Dividends paid on preferred shares	(40,727)	(39,849)
Debt issuance and other costs	(29,478)	(14,053)
Contributions from noncontrolling interests	11,874	51,725
Proceeds received from exercise of employee share options	3,810	13,683
Repurchase of shares related to stock compensation agreements and related tax withholdings and other	(186)	(2,939)
Cash included in the spin-off of Urban Edge Properties	-	(225,000)
Net cash used in financing activities	(82,674)	(392,154)
Net decrease in cash and cash equivalents	(191,640)	(682,140)
Cash and cash equivalents at beginning of period	1,835,707	1,198,477
Cash and cash equivalents at end of period	\$ 1,644,067	\$ 516,337
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash payments for interest, excluding capitalized interest of \$13,918 and \$17,550	\$ 181,432	\$ 178,461
Cash payments for income taxes	\$ 5,003	\$ 6,584
<b>Non-Cash Investing and Financing Activities:</b>		
Write-off of fully depreciated assets	\$ (220,654)	\$ (81,027)
Accrued capital expenditures included in accounts payable and accrued expenses	144,079	70,672
Change in unrealized net gain (loss) on securities available-for-sale	39,113	(46,332)
Adjustments to carry redeemable Class A units at redemption value	(20,369)	229,521
Decrease in assets and liabilities resulting from the deconsolidation of investments that were previously consolidated		
Real estate, net	(122,047)	-
Mortgages payable, net	(290,418)	-
Non-cash distribution of Urban Edge Properties:		
Assets	-	1,722,263
Liabilities	-	(1,482,660)
Equity	-	(239,603)
	-	(145,313)

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Transfer of interest in real estate to Pennsylvania Real Estate Investment Trust		
Financing assumed in acquisitions	-	62,000
Like-kind exchange of real estate:		
Acquisitions	46,698	62,355
Dispositions	(29,639)	(38,822)

See notes to consolidated financial statements (unaudited).



**VORNADO REALTY TRUST**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**(UNAUDITED)**

## **1. Organization**

Vornado Realty Trust (“Vornado”) is a fully integrated real estate investment trust (“REIT”) and conducts its business through, and all of its interests in properties are held by, Vornado Realty L.P., a Delaware limited partnership (the “Operating Partnership”). Vornado is the sole general partner of, and owned approximately 93.6% of the common limited partnership interest in, the Operating Partnership at June 30, 2016. All references to “we,” “us,” “our,” the “Company” and “Vornado” refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

## **2. Basis of Presentation**

The accompanying consolidated financial statements are unaudited and include the accounts of Vornado and its consolidated subsidiaries, including the Operating Partnership. All inter-company amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, for the year ended December 31, 2015, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the operating results for the full year.

### **3. Recently Issued Accounting Literature**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2014-09”) establishing Accounting Standards Codification (“ASC”) Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). ASU 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. In August 2015, the FASB issued an update (“ASU 2015-14”) to ASC 606, *Deferral of the Effective Date*, which defers the adoption of ASU 2014-09 to interim and annual reporting periods in fiscal years that begin after December 15, 2017. In March 2016, the FASB issued an update (“ASU 2016-08”) to ASC 606, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard pursuant to ASU 2014-09. In April 2016, the FASB issued an update (“ASU 2016-10”) to ASC 606, *Identifying Performance Obligations and Licensing*, which clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in ASU 2014-09. In May 2016, the FASB issued an update (“ASU 2016-12”) to ASC 606, *Narrow-Scope Improvements and Practical Expedients*, which amends certain aspects of the new revenue recognition standard pursuant to ASU 2014-09. We are currently evaluating the impact of the adoption of these ASUs on our consolidated financial statements.

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





**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

### 3. Recently Issued Accounting Literature - continued

In February 2015, the FASB issued an update (“ASU 2015-02”) *Amendments to the Consolidation Analysis* to ASC Topic 810, *Consolidation*. ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities (“VIEs”) or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, and (iv) provide a scope exception for certain entities. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The adoption of this update on January 1, 2016 resulted in the identification of additional VIEs, but did not have an impact on our consolidated financial statements other than additional disclosures (see Note 13 - *Variable Interest Entities*).

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

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

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

### 4. Acquisitions

On May 20, 2016, we contributed \$19,650,000 for a 50.0% equity interest in a joint venture that will develop a 33,000 square foot office and retail building, located on Houston Street in Manhattan. The development cost of this project is estimated to be approximately \$104,000,000. At closing, the joint venture obtained a \$65,000,000 construction loan, of which approximately \$22,100,000 was outstanding at June 30, 2016. The loan, which bears interest at LIBOR plus 3.00% (3.47% at June 30, 2016), matures in May 2019 with two one-year extension options. Because this joint venture is a VIE and we determined we are the primary beneficiary, we consolidate the accounts of this joint venture from the date of our investment.

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**5. Real Estate Fund Investments**

We are the general partner and investment manager of Vornado Capital Partners Real Estate Fund (the “Fund”), which has an eight-year term and a three-year investment period that ended in July 2013. During the investment period, the Fund was our exclusive investment vehicle for all investments that fit within its investment parameters, as defined. The Fund is accounted for under ASC 946, *Financial Services – Investment Companies* (“ASC 946”) and its investments are reported on its balance sheet at fair value, with changes in value each period recognized in earnings. We consolidate the accounts of the Fund into our consolidated financial statements, retaining the fair value basis of accounting.

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

At June 30, 2016, we had six real estate fund investments with an aggregate fair value of \$524,150,000, or \$215,215,000 in excess of cost, and had remaining unfunded commitments of \$117,907,000, of which our share was \$34,522,000. Below is a summary of income from the Fund and the Co-Investment for the three and six months ended June 30, 2016 and 2015.

(Amounts in thousands)	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net investment income	\$ 1,723	\$ 2,150	\$ 6,396	\$ 8,600
Net realized gains on exited investments	-	886	14,676	25,591
Previously recorded unrealized gain on exited investment	-	-	(14,254)	(23,279)
Net unrealized gains on held investments	14,666	23,332	20,855	39,545
	16,389	26,368	27,673	50,457

Income from real estate fund investments				
Less income attributable to noncontrolling interests	(8,845)	(15,872)	(14,818)	(29,411)
Income from real estate fund investments attributable to Vornado <sup>(1)</sup>	\$ 7,544	\$ 10,496	\$ 12,855	\$ 21,046

- (1) Excludes management, leasing and development fees of \$935 and \$633 for the three months ended June 30, 2016 and 2015, respectively, and \$1,695 and \$1,337 for the six months ended June 30, 2016 and 2015, respectively, which are included as a component of "fee and other income" in our consolidated statements of income.

## 6. Marketable Securities

Below is a summary of our marketable securities portfolio as of June 30, 2016 and December 31, 2015.

(Amounts in thousands)	As of June 30, 2016			As of December 31, 2015		
	Fair Value	GAAP Cost	Unrealized Gain	Fair Value	GAAP Cost	Unrealized Gain
Equity securities:						
Lexington Realty Trust	\$ 186,721	\$ 72,549	\$ 114,172	\$ 147,752	\$ 72,549	\$ 75,203
Other	7,768	4,379	3,389	3,245	-	3,245
	\$ 194,489	\$ 76,928	\$ 117,561	\$ 150,997	\$ 72,549	\$ 78,448

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**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**7. Investments in Partially Owned Entities**

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

As of June 30, 2016, we own 1,654,068 Alexander's common shares, representing a 32.4% interest in Alexander's. We account for our investment in Alexander's under the equity method. We manage, lease and develop Alexander's properties pursuant to agreements which expire in March of each year and are automatically renewable.

As of June 30, 2016, the market value (“fair value” pursuant to ASC Topic 820, *Fair Value Measurements* (“ASC 820”)) of our investment in Alexander’s, based on Alexander’s June 30, 2016 closing share price of \$409.23, was \$676,894,000, or \$547,099,000 in excess of the carrying amount on our consolidated balance sheet. As of June 30, 2016, the carrying amount of our investment in Alexander’s, excluding amounts owed to us, exceeds our share of the equity in the net assets of Alexander’s by approximately \$39,786,000. The majority of this basis difference resulted from the excess of our purchase price for the Alexander’s common stock acquired over the book value of Alexander’s net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of Alexander’s assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in Alexander’s net income. The basis difference related to the land will be recognized upon disposition of our investment.

*Urban Edge Properties (“UE”) (NYSE: UE)*

As of June 30, 2016, we own 5,717,184 UE operating partnership units, representing a 5.4% ownership interest in UE. We account for our investment in UE under the equity method and record our share of UE’s net income or loss on a one-quarter lag basis. During 2015, we provided transition services to UE, primarily for information technology, human resources, tax and financial planning. In 2016, we continue to provide UE information technology support. UE is providing us with leasing and property management services for (i) certain small retail properties that we plan to sell, and (ii) our affiliate, Alexander’s, Rego Park retail assets. As of June 30, 2016, the fair value of our investment in UE, based on UE’s June 30, 2016 closing share price of \$29.86, was \$170,715,000, or \$146,847,000 in excess of the carrying amount on our consolidated balance sheet.



*Pennsylvania Real Estate Investment Trust (“PREIT”) (NYSE: PEI)*

As of June 30, 2016, we own 6,250,000 PREIT operating partnership units, representing an 8.0% interest in PREIT. We account for our investment in PREIT under the equity method and record our share of PREIT’s net income or loss on a one-quarter lag basis. As of June 30, 2016, the fair value of our investment in PREIT, based on PREIT’s June 30, 2016 closing share price of \$21.45, was \$134,063,000, or \$8,241,000 in excess of the carrying amount on our consolidated balance sheet. As of June 30, 2016, the carrying amount of our investment in PREIT exceeds our share of the equity in the net assets of PREIT by approximately \$64,712,000. The majority of this basis difference resulted from the excess of the fair value of the PREIT operating units received over our share of the book value of PREIT’s net assets. Substantially all of this basis difference was allocated, based on our estimates of the fair values of PREIT’s assets and liabilities, to real estate (land and buildings). We are amortizing the basis difference related to the buildings into earnings as additional depreciation expense over their estimated useful lives. This depreciation is not material to our share of equity in PREIT’s net loss. The basis difference related to the land will be recognized upon disposition of our investment.

*One Park Avenue*

On March 7, 2016, the joint venture in which we have a 55% ownership interest, completed a \$300,000,000 refinancing of One Park Avenue, a 947,000 square foot Manhattan office building. The loan matures in March 2021 and is interest only at LIBOR plus 1.75% (2.21% at June 30, 2016). The property was previously encumbered by a 4.995%, \$250,000,000 mortgage which matured in March 2016.

*Mezzanine Loan – New York*

On March 17, 2016, we entered into a joint venture, in which we own a 33.3% interest, which owns a \$142,050,000 mezzanine loan. The interest rate is LIBOR plus 8.875% (9.32% at June 30, 2016) and the debt matures in November 2016, with two three-month extension options. At June 30, 2016, the joint venture has a \$7,950,000 remaining commitment, of which our share is \$2,650,000. The joint venture's investment is subordinate to \$350,000,000 of third party debt. We account for our investment in the joint venture under the equity method.



**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

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

*The Warner Building*

On May 6, 2016, the joint venture in which we have a 55% ownership interest, completed a \$273,000,000 refinancing of The Warner Building, a 621,000 square foot Washington, DC office building. The loan matures in June 2023, has a fixed rate of 3.65%, is interest only for the first two years and amortizes based on a 30-year schedule beginning in year three. The property was previously encumbered by a 6.26%, \$293,000,000 mortgage which matured in May 2016.

*280 Park Avenue*

On May 11, 2016, the joint venture in which we have a 50% ownership interest, completed a \$900,000,000 refinancing of 280 Park Avenue, a 1,250,000 square foot Manhattan office building. The three-year loan with four one-year extensions is interest only at LIBOR plus 2.00%, (2.45% at June 30, 2016). The property was previously encumbered by a 6.35%, \$721,000,000 mortgage which was scheduled to mature in June 2016.

*7 West 34th Street*

On May 16, 2016, we completed a \$300,000,000 recourse financing of 7 West 34th Street, a 477,000 square foot Manhattan office building leased to Amazon. The ten-year loan is interest only at a fixed rate of 3.65% and matures in June 2026. Subsequently, on May 27, 2016, we sold a 47% ownership interest in this property and retained the remaining 53% interest. This transaction was based on a property value of approximately \$561,000,000 or \$1,176 per square foot. We received net proceeds of \$127,382,000 from the sale and realized a net gain of \$203,324,000, of which \$159,511,000 is recognized this quarter and is included in “net gain on disposition of wholly owned and partially owned assets” in our consolidated statements of income. The remaining net gain of \$43,813,000 has been deferred until our guarantee of payment of loan principal and interest has been removed or the loan has been repaid. We realized a net tax gain of \$90,017,000. We continue to manage and lease the property. We share control over major decisions with our joint venture partner. Accordingly, this property is accounted for under the equity method from the date of sale.





## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 7. Investments in Partially Owned Entities – continued

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

(Amounts in thousands)

	Percentage	Balance as of	
	Ownership at	June 30, 2016	December 31, 2015
	June 30, 2016	June 30, 2016	December 31, 2015
<b>Investments:</b>			
Partially owned office buildings			
(1)	Various	\$ 811,984	\$ 909,782
Alexander's	32.4%	129,795	133,568
PREIT	8.0%	125,822	133,375
India real estate ventures	4.1%-36.5%	45,139	48,310
UE	5.4%	23,868	25,351
Other investments (2)	Various	363,184	300,036
		\$ 1,499,792	\$ 1,550,422
7 West 34th Street (3)	53.0%	\$ (43,160)	\$ -

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

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

(3) Our negative basis results from a \$43,813 deferred gain from the sale of a 47.0% ownership interest in the property and is included in "other liabilities" on our consolidated balance sheet.

(Amounts in thousands)	Percentage	For the Three Months		For the Six Months Ended	
		Ended	Ended	June 30,	June 30,
	Ownership at	June 30,	June 30,	2016	2015
	June 30, 2016	2016	2015	2016	2015
<b>Our Share of Net Income (Loss):</b>					
Alexander's (see page 13 for details):					
Equity in net income	32.4%	\$ 6,812	\$ 5,447	\$ 13,749	\$ 11,041
Management, leasing and development		1,688	1,876	3,413	3,973

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fees		8,500	7,323	17,162	15,014
UE (see page 13 for details):					
Equity in net earnings	5.4%	1,071	404	1,947	404
Management fees		209	500	418	1,084
		1,280	904	2,365	1,488
Partially owned office buildings <sup>(1)</sup>	Various	(12,462)	(3,238)	(26,711)	(12,534)
India real estate ventures	4.1%-36.5%	(1,934)	(16,567)	(2,620)	(16,676)
PREIT (see page 13 for details)	8.0%	(527)	(364)	(4,815)	(364)
Other investments <sup>(2)</sup>	Various	5,785	6,301	11,021	4,688
		\$ 642	\$ (5,641)	\$ (3,598)	\$ (8,384)

(1) Includes interests in 280 Park Avenue, 650 Madison Avenue, One Park Avenue, 666 Fifth Avenue (Office), 7 West 34th Street, 330 Madison Avenue, 512 West 22nd Street and others. In 2015, we recognized our \$5,387 share of a write-off of a below market lease liability related to a tenant vacating at 650 Madison.

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

## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

**8. Dispositions***Discontinued Operations*

The tables below set forth the assets and liabilities related to discontinued operations at June 30, 2016 and December 31, 2015 and their combined results of operations and cash flows for the three and six months ended June 30, 2016 and 2015.

(Amounts in thousands)

	<b>Balance as of</b>	
	<b>June 30, 2016</b>	<b>December 31, 2015</b>
<b>Assets related to discontinued operations:</b>		
Real estate, net	\$ 3,111	\$ 29,561
Other assets	5,567	7,459
	<b>\$ 8,678</b>	<b>\$ 37,020</b>
<b>Liabilities related to discontinued operations:</b>		
Other liabilities	\$ 8,104	\$ 12,470

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
(Amounts in thousands)	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Income (loss) from discontinued operations:</b>				
Total revenues	\$ 947	\$ 1,983	\$ 2,129	\$ 22,279
Total expenses	682	2,020	1,148	15,393
	265	(37)	981	6,886
Net gains on sale of real estate	2,210	-	2,210	10,867
UE spin-off transaction related costs	-	(327)	-	(22,972)
	-	-	-	21,376

Net gain on sale of lease position in Geary Street, CA				
Impairment losses	-	-	-	(256)
Pretax income from discontinued operations	2,475	(364)	3,191	15,901
Income tax expense	-	-	-	(86)
Income (loss) from discontinued operations	\$ 2,475	\$ (364)	\$ 3,191	\$ 15,815

(Amounts in thousands)

**For the Six Months Ended June 30,**  
**2016**                      **2015**

**Cash flows related to discontinued operations:**

Cash flows from operating activities		\$ (4,685)	\$ (35,738)
Cash flows from investing activities		-	310,069

**VORNADO REALTY TRUST**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
**(UNAUDITED)**

**9. Identified Intangible Assets and Liabilities**

The following summarizes our identified intangible assets (primarily above-market leases) and liabilities (primarily acquired below-market leases) as of June 30, 2016 and December 31, 2015.

(Amounts in thousands)	Balance as of	
	June 30, 2016	December 31, 2015
<b>Identified intangible assets:</b>		
Gross amount	\$ 404,473	\$ 415,261
Accumulated amortization	(194,463)	(187,360)
Net	\$ 210,010	\$ 227,901
<b>Identified intangible liabilities (included in deferred revenue):</b>		
Gross amount	\$ 600,722	\$ 643,488
Accumulated amortization	(311,197)	(325,340)
Net	\$ 289,525	\$ 318,148

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in an increase to rental income of \$12,301,000 and \$13,378,000 for the three months ended June 30, 2016 and 2015, respectively, and \$29,808,000 and \$25,828,000 for the six months ended June 30, 2016 and 2015, respectively. Estimated annual amortization of acquired below-market leases, net of acquired above-market leases, for each of the five succeeding years commencing January 1, 2017 is as follows:

(Amounts in thousands)	
2017	\$ 45,361
2018	44,101
2019	31,937
2020	23,365
2021	18,287

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$8,066,000 and \$5,309,000 for the three months ended June 30, 2016 and 2015, respectively, and \$15,859,000 and \$11,494,000 for the six months ended June 30, 2016 and 2015, respectively. Estimated annual amortization of all other identified intangible assets including acquired in-place leases, customer relationships, and third party contracts for each of the five succeeding years commencing January 1, 2017 is as follows:

(Amounts in thousands)	
2017	\$ 24,795
2018	20,541
2019	16,202
2020	12,404
2021	11,032

We are a tenant under ground leases for certain properties. Amortization of these acquired below-market leases, net of above-market leases, resulted in an increase to rent expense of \$458,000 and \$458,000 for the three months ended June 30, 2016 and 2015, respectively, and \$916,000 and \$916,000 for the six months ended June 30, 2016 and 2015. Estimated annual amortization of these below-market leases, net of above-market leases, for each of the five

succeeding years commencing January 1, 2017 is as follows:

(Amounts in thousands)

2017	\$	1,832
2018		1,832
2019		1,832
2020		1,832
2021		1,832

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**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**10. Debt**

On February 8, 2016, we completed a \$700,000,000 refinancing of 770 Broadway, a 1,158,000 square foot Manhattan office building. The five-year loan is interest only at LIBOR plus 1.75%, (2.21% at June 30, 2016) which was swapped for four and a half years to a fixed rate of 2.56%. The Company realized net proceeds of approximately \$330,000,000. The property was previously encumbered by a 5.65%, \$353,000,000 mortgage which matured in March 2016.

On March 15, 2016, we notified the servicer of the \$678,000,000 mortgage loan on the Skyline properties in Virginia that cash flow will be insufficient to service the debt and pay other property related costs and expenses and that we were not willing to fund additional cash shortfalls. Accordingly, at our request, the loan has been transferred to the special servicer. Consequently, based on our shortened estimated holding period for the underlying assets, we concluded that the excess of carrying amount over our estimate of fair value was not recoverable and recognized a \$160,700,000 non-cash impairment loss in the first quarter of 2016. The Company's estimate of fair value was derived from a discounted cash flow model based upon market conditions and expectations of growth and utilized unobservable quantitative inputs including a capitalization rate of 8.0% and a discount rate of 8.2%. In the second quarter of 2016, cash flow became insufficient to service the debt and we ceased making debt service payments. Pursuant to the loan agreement, the loan is in default, causing the loan to be immediately due and payable, and is subject to incremental default interest which increased the weighted average interest rate from 2.97% to 4.51% while the outstanding balance remains unpaid. For the three and six months ended June 30, 2016, we accrued \$2,711,000 of default interest expense. We continue to negotiate with the special servicer. There can be no assurance as to the timing or ultimate resolution of this matter.



The following is a summary of our debt:

(Amounts in thousands)	<b>Interest Rate at June 30, 2016</b>	<b>Balance at June 30, 2016</b>	<b>Balance at December 31, 2015</b>
<b>Mortgages Payable:</b>			
Fixed rate	4.17%	\$ 6,571,398	\$ 6,356,634
Variable rate	2.28%	3,281,935	3,258,204
Total	3.54%	9,853,333	9,614,838
Deferred financing costs, net and other		(106,515)	(101,125)
Total, net		\$ 9,746,818	\$ 9,513,713
<b>Unsecured Debt:</b>			
Senior unsecured notes	3.68%	\$ 850,000	\$ 850,000
Deferred financing costs, net and other		(5,132)	(5,841)
Senior unsecured notes, net		844,868	844,159
Unsecured term loan	1.61%	375,000	187,500
Deferred financing costs, net and other		(3,545)	(4,362)
Unsecured term loan, net		371,455	183,138
Unsecured revolving credit facilities	1.51%	115,630	550,000
Total, net		\$ 1,331,953	\$ 1,577,297

**VORNADO REALTY TRUST**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**  
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**11. Redeemable Noncontrolling Interests**

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

(Amounts in thousands)	
Balance at December 31, 2014	\$ 1,337,780
Net income	15,485
Other comprehensive loss	(2,635)
Distributions	(14,734)
Redemption of Class A units for common shares, at redemption value	(43,278)
Adjustments to carry redeemable Class A units at redemption value	(229,521)
Issuance of Series D-17 Preferred Units	4,427
Other, net	25,370
Balance at June 30, 2015	\$ 1,092,894
Balance at December 31, 2015	\$ 1,229,221
Net income	7,044
Other comprehensive income	1,685
Distributions	(15,763)
Redemption of Class A units for common shares, at redemption value	(18,208)
Adjustments to carry redeemable Class A units at redemption value	20,369
Other, net	21,149
Balance at June 30, 2016	\$ 1,245,497

As of June 30, 2016 and December 31, 2015, the aggregate redemption value of redeemable Class A units was \$1,240,069,000 and \$1,223,793,000, respectively.

Redeemable noncontrolling interests exclude our Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units, as they are accounted for as liabilities in accordance with ASC 480, *Distinguishing Liabilities and Equity*, because of their possible settlement by issuing a variable number of Vornado common shares. Accordingly, the fair value of these units is included as a component of “other liabilities” on our consolidated balance sheets and aggregated \$50,561,000 as of June 30, 2016 and December 31, 2015. Changes in the value from period to period, if any, are charged to “interest and debt expense” in our consolidated statements of income.





## VORNADO REALTY TRUST

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(UNAUDITED)

## 12. Accumulated Other Comprehensive Income (“AOCI”)

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

(Amounts in thousands)	Total	Securities available- for-sale	Pro rata share of nonconsolidated subsidiaries' OCI	Interest rate swaps	Other
<b>For the Three Months Ended June 30, 2016</b>					
Balance as of March 31, 2016	\$ 53,399	\$ 89,542	\$ (9,313)	\$ (23,563)	\$ (3,267)
OCI before reclassifications	19,157	28,019	(628)	(6,975)	(1,259)
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	19,157	28,019	(628)	(6,975)	(1,259)
Balance as of June 30, 2016	\$ 72,556	\$ 117,561	\$ (9,941)	\$ (30,538)	\$ (4,526)
<b>For the Three Months Ended June 30, 2015</b>					
Balance as of March 31, 2015	\$ 72,609	\$ 112,442	\$ (8,835)	\$ (26,579)	\$ (4,419)
OCI before reclassifications	(21,996)	(25,000)	(1,191)	2,849	1,346
Amounts reclassified from AOCI	-	-	-	-	-
Net current period OCI	(21,996)	(25,000)	(1,191)	2,849	1,346
Balance as of June 30, 2015	\$ 50,613	\$ 87,442	\$ (10,026)	\$ (23,730)	\$ (3,073)
<b>For the Six Months Ended June 30, 2016</b>					
Balance as of December 31, 2015	\$ 46,921	\$ 78,448	\$ (9,319)	\$ (19,368)	\$ (2,840)
OCI before reclassifications	25,635	39,113	(622)	(11,170)	(1,686)
	-	-	-	-	-

Amounts reclassified from AOCI						
Net current period OCI	25,635	39,113	(622)	(11,170)	(1,686)	
Balance as of June 30, 2016	\$ 72,556	\$ 117,561	\$ (9,941)	\$ (30,538)	\$ (4,526)	
<b>For the Six Months Ended June 30, 2015</b>						
Balance as of December 31, 2014	\$ 93,267	\$ 133,774	\$ (8,992)	\$ (25,803)	\$ (5,712)	
OCI before reclassifications	(42,654)	(46,332)	(1,034)	2,073	2,639	
Amounts reclassified from AOCI	-	-	-	-	-	
Net current period OCI	(42,654)	(46,332)	(1,034)	2,073	2,639	
Balance as of June 30, 2015	\$ 50,613	\$ 87,442	\$ (10,026)	\$ (23,730)	\$ (3,073)	

### 13. Variable Interest Entities

At June 30, 2016 and December 31, 2015, we have several unconsolidated VIEs. We do not consolidate these entities because we are not the primary beneficiary and the nature of our involvement in the activities of these entities does not give us power over decisions that significantly affect these entities' economic performance. We account for our investment in these entities under the equity method (see Note 7 – *Investments in Partially Owned Entities*). As of June 30, 2016 and December 31, 2015, the net carrying amounts of our investment in these entities were \$394,866,000 and \$379,939,000, respectively, and our maximum exposure to loss in these entities, is limited to our investments.

We adopted ASU 2015-02 on January 1, 2016 which resulted in the identification of several VIEs at June 30, 2016. Prior to the adoption of ASU 2015-02, these entities were consolidated under the voting interest model. Our most significant consolidated VIEs are our Operating Partnership, real estate fund investments, and certain properties that have non-controlling interests. These entities are VIEs because the non-controlling interests do not have substantive kick-out or participating rights. We consolidate these entities because we control all significant business activities.

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



**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

## 14. Fair Value Measurements

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



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





Financial assets and liabilities that are measured at fair value on our consolidated balance sheets consist of (i) marketable securities, (ii) real estate fund investments, (iii) the assets in our deferred compensation plan (for which there is a corresponding liability on our consolidated balance sheet), (iv) mandatorily redeemable instruments (Series G-1 through G-4 convertible preferred units and Series D-13 cumulative redeemable preferred units), and (v) interest rate swaps. The tables below aggregate the fair values of these financial assets and liabilities by their levels in the fair value hierarchy as of June 30, 2016 and December 31, 2015, respectively.

(Amounts in thousands)

	<b>As of June 30, 2016</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Marketable securities	\$ 194,489	\$ 194,489	\$ -	\$ -
Real estate fund investments	524,150	-	-	524,150
Deferred compensation plan assets (included in other assets)	119,292	59,152	-	60,140
Total assets	\$ 837,931	\$ 253,641	\$ -	\$ 584,290
Mandatorily redeemable instruments (included in other liabilities)	\$ 50,561	\$ 50,561	\$ -	\$ -
Interest rate swaps (included in other liabilities)	31,900	-	31,900	-
Total liabilities	\$ 82,461	\$ 50,561	\$ 31,900	\$ -

(Amounts in thousands)

	<b>As of December 31, 2015</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Marketable securities	\$ 150,997	\$ 150,997	\$ -	\$ -
Real estate fund investments	574,761	-	-	574,761
Deferred compensation plan assets (included in other assets)	117,475	58,289	-	59,186
Total assets	\$ 843,233	\$ 209,286	\$ -	\$ 633,947
Mandatorily redeemable instruments (included in other liabilities)	\$ 50,561	\$ 50,561	\$ -	\$ -
Interest rate swaps (included in other liabilities)	19,600	-	19,600	-
Total liabilities	\$ 70,161	\$ 50,561	\$ 19,600	\$ -



**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

## **14. Fair Value Measurements – continued**

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



Real Estate Fund Investments





At June 30, 2016, we had six real estate fund investments with an aggregate fair value of \$524,150,000, or \$215,215,000 in excess of cost. These investments are classified as Level 3. We use a discounted cash flow valuation technique to estimate the fair value of each of these investments, which is updated quarterly by personnel responsible for the management of each investment and reviewed by senior management at each reporting period. The discounted cash flow valuation technique requires us to estimate cash flows for each investment over the anticipated holding period, which currently ranges from 1.0 to 4.5 years. Cash flows are derived from property rental revenue (base rents plus reimbursements) less operating expenses, real estate taxes and capital and other costs, plus projected sales proceeds in the year of exit. Property rental revenue is based on leases currently in place and our estimates for future leasing activity, which are based on current market rents for similar space plus a projected growth factor. Similarly, estimated operating expenses and real estate taxes are based on amounts incurred in the current period plus a projected growth factor for future periods. Anticipated sales proceeds at the end of an investment's expected holding period are determined based on the net cash flow of the investment in the year of exit, divided by a terminal capitalization rate, less estimated selling costs.

The fair value of each property is calculated by discounting the future cash flows (including the projected sales proceeds), using an appropriate discount rate and then reduced by the property's outstanding debt, if any, to determine the fair value of the equity in each investment. Significant unobservable quantitative inputs used in determining the fair value of each investment include capitalization rates and discount rates. These rates are based on the location, type and nature of each property, and current and anticipated market conditions, industry publications and from the experience of our Acquisitions and Capital Markets departments. Significant unobservable quantitative inputs in the table below were utilized in determining the fair value of these real estate fund investments at June 30, 2016 and December 31, 2015.

Unobservable Quantitative Input	Range		Weighted Average (based on fair value of investments)	
	June 30, 2016	December 31, 2015	June 30, 2016	December 31, 2015
Discount rates	12.0% to 14.9%	12.0% to 14.9%	13.7%	13.6%
Terminal capitalization rates	4.8% to 6.1%	4.8% to 6.1%	5.5%	5.5%

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



The table below summarizes the changes in the fair value of real estate fund investments that are classified as Level 3, for the three and six months ended June 30, 2016 and 2015.

(Amounts in thousands)	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Beginning balance	\$ 566,696	\$ 554,426	\$ 574,761	\$ 513,973
Purchases	-	-	-	95,000
Dispositions / distributions	(57,212)	(11,235)	(71,888)	(83,421)
Net unrealized gains	14,666	23,332	20,855	39,545
Net realized gains	-	886	422	2,312
Other, net	-	(1,433)	-	(1,433)
Ending balance	\$ 524,150	\$ 565,976	\$ 524,150	\$ 565,976



**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

## **14. 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, 2016 and 2015.

(Amounts in thousands)	For the Three Months Ended June		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Beginning balance	\$ 57,184	\$ 64,836	\$ 59,186	\$ 63,315
Purchases	1,106	5,607	2,272	6,231
Sales	(779)	(4,655)	(2,151)	(5,093)
Realized and unrealized gain	2,219	1,387	312	2,722
Other, net	410	493	521	493
Ending balance	\$ 60,140	\$ 67,668	\$ 60,140	\$ 67,668

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**(UNAUDITED)**

**14. Fair Value Measurements – continued**

*Financial Assets and Liabilities not Measured at Fair Value*



Financial assets and liabilities that are not measured at fair value on our consolidated balance sheets include cash equivalents (primarily money market funds, which invest in obligations of the United States government), and our secured and unsecured debt. Estimates of the fair value of these instruments are determined by the standard practice of modeling the contractual cash flows required under the instrument and discounting them back to their present value at the appropriate current risk adjusted interest rate, which is provided by a third-party specialist. For floating rate debt, we use forward rates derived from observable market yield curves to project the expected cash flows we would be required to make under the instrument. The fair value of cash equivalents and borrowings under our unsecured revolving credit facilities and unsecured term loan are classified as Level 1. The fair value of our secured and unsecured debt is classified as Level 2. The table below summarizes the carrying amounts and fair value of these financial instruments as of June 30, 2016 and December 31, 2015.

(Amounts in thousands)	As of June 30, 2016		As of December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash equivalents	\$ 1,134,521	\$ 1,135,000	\$ 1,295,980	