

GLENN

VNO

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: September 30, 1994

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: 1-11954

VORNADO REALTY TRUST

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation or organization)

22-1657580

(I.R.S. Employer Identification Number)

Park 80 West, Plaza II, Saddle Brook, New Jersey

(Address of principal executive offices)

07862

(Zip Code)

(201)587-1000

(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

As of October 17, 1994 there were 21,632,127 common shares outstanding.

**VORNADO REALTY TRUST**

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PART I. FINANCIAL INFORMATION

YORNADO REALTY TRUST

CONSOLIDATED BALANCE SHEETS

(amounts in thousands except share amounts)

	September 30, 1994	September 30, 1993		September 30, 1994	September 31, 1993
<b>ASSETS:</b>			<b>LIABILITIES AND SHAREHOLDERS' EQUITY:</b>		
Real estate, at cost:			Notes and mortgages payable	\$234,251	\$235,037
Land			Due for U.S. treasury obligations	34,424	22,847
Buildings and improvements			Accounts payable and accrued expenses	4,720	9,033
Leasehold improvements and equipment			Other liabilities	3,268	3,176
Total	357,753	340,415	Total liabilities	<u>276,663</u>	<u>270,093</u>
Less accumulated depreciation and amortization	(126,092)	(118,742)	Commitments and contingencies		
Real estate, net	231,661	221,673	Shareholders' equity:		
Cash and cash equivalents, including U.S. government obligations under repurchase agreements of \$8,659 and \$3,332	25,377	24,119	Preferred shares of beneficial interest: no par value per share; authorized, 1,000,000 shares; issued, none		
Securities available for sale	94,448	98,018	Common shares of beneficial interest: \$0.4 par value per share; authorized, 50,000,000 shares; issued, 21,626,103 and 21,603,266 shares	197,803	197,575
Trading securities	2,634	3,657	Additional capital	(79,190)	(77,517)
Due from officer	8,418	8,418	Accumulated deficit	119,478	120,922
Accounts receivable, net of allowance for doubtful accounts of \$438 and \$402	4,966	4,199	Unrealized gain on securities available for sale	4,246	-
Income taxes receivable	-	672	Due from officers for purchase of common shares of beneficial interest	(5,185)	(5,185)
Prepaid expenses	3,181	1,645	Total shareholders' equity	<u>118,539</u>	<u>115,737</u>
Receivable arising from the straight-fling of rents	11,126	9,626			
Debt issue costs	5,915	5,972			
Other assets	7,476	7,831			
<b>TOTAL ASSETS</b>	<u>\$395,202</u>	<u>\$385,830</u>	<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u>\$395,202</u>	<u>\$385,830</u>

See notes to consolidated financial statements.

**VORNADO REALTY TRUST**  
**CONSOLIDATED STATEMENTS OF INCOME**

(amounts in thousands except share amounts)

	<b><u>FOR THE THREE MONTHS ENDED</u></b>		<b><u>FOR THE NINE MONTHS ENDED</u></b>	
	<b><u>September 30,</u></b> <b><u>1994</u></b>	<b><u>September 30,</u></b> <b><u>1993</u></b>	<b><u>September 30,</u></b> <b><u>1994</u></b>	<b><u>September 30,</u></b> <b><u>1993</u></b>
Property rentals	<b><u>\$17,519</u></b>	<b><u>\$16,826</u></b>	<b><u>\$52,054</u></b>	<b><u>\$50,319</u></b>
Expenses:				
Operating, net	1,916	1,765	5,654	6,453
Depreciation and amortization	2,498	2,350	7,351	7,012
General and administrative (net of fee income from related parties)	1,156	667	3,633	3,039
Costs in connection with the merger of Vornado, Inc. into Vornado Realty Trust	-	-	-	856
	<b><u>5,570</u></b>	<b><u>4,782</u></b>	<b><u>16,638</u></b>	<b><u>17,360</u></b>
Operating Income	11,949	12,044	35,416	32,959
Interest and dividend income	1,870	3,449	5,655	9,185
Interest and debt expense	(3,546)	(8,365)	(10,823)	(25,083)
Net gain on marketable securities	<u>257</u>	<u>-</u>	<u>500</u>	<u>191</u>
Income from continuing operations before income tax benefit	10,530	7,128	30,748	17,252
Benefit for federal and state income taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,369)</u>
Income from continuing operations	10,530	7,128	30,748	23,621
(Loss) from discontinued operation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(600)</u>
NET INCOME	<b><u>\$10,530</u></b>	<b><u>\$ 7,128</u></b>	<b><u>\$30,748</u></b>	<b><u>\$23,021</u></b>
Net Income (Loss) Per Share:				
Continuing operations	<u>\$ .48</u>	<u>\$ .33</u>	<u>\$1.41</u>	<u>\$1.24</u>
Discontinued operation	<u>-</u>	<u>-</u>	<u>-</u>	<u>(.03)</u>
	<b><u>\$ .48</u></b>	<b><u>\$ .33</u></b>	<b><u>\$1.41</u></b>	<b><u>\$1.21</u></b>
Weighted average number of common shares and common share equivalents outstanding during period	21,868,173	21,654,098	21,868,329	19,077,560
Dividends per share	\$ .50	\$ .44	\$1.50	\$1.06

See notes to consolidated financial statements.

**VORNADO REALTY TRUST**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(amounts in thousands)

	<b><u>FOR THE NINE MONTHS ENDED</u></b>	
	<b><u>September 30,</u></b>	<b><u>September 30,</u></b>
	<b><u>1994</u></b>	<b><u>1993</u></b>
<b>Cash flows from operating activities:</b>		
Income from continuing operations	\$ 30,748	\$ 23,621
Adjustments to reconcile income to net cash provided by continuing operations:		
Depreciation and amortization (including debt issuance costs)	8,007	8,595
Straight-lining of rental income	(1,500)	(1,500)
Reversal of deferred income taxes	-	(6,369)
Net gain on securities	(500)	(244)
Changes in assets and liabilities:		
Accounts receivable and prepaid expenses	(2,303)	(2,190)
Due to officer	-	(12,753)
Accounts payable and accrued expenses	(4,313)	(80)
Income taxes receivable	672	4,723
Other	<u>(152)</u>	<u>(522)</u>
Net cash provided by operating activities of continuing operations	30,659	13,281
Net cash (used in) operating activities of discontinued operation	-	<u>(600)</u>
Net cash provided by operating activities	<u>30,659</u>	<u>12,681</u>
<b>Cash flows from investing activities:</b>		
Additions to real estate	(17,339)	(4,631)
Purchases of securities	(4,478)	(4,986)
Proceeds from sale of securities	<u>13,817</u>	<u>1,395</u>
Net cash (used in) investing activities	<u>(8,000)</u>	<u>(8,222)</u>
<b>Cash flows from financing activities:</b>		
Due for U.S. treasury obligations	11,577	(30,067)
Payments on borrowings	(786)	(10,430)
Dividends paid	(32,421)	(20,944)
Net loans to officer	-	(5,500)
Net proceeds from issuance of common shares	-	172,051
Distribution of accumulated earnings and profits	-	(54,022)
Exercise of stock options	<u>229</u>	<u>2,015</u>
Net cash (used in) provided by financing activities	<u>(21,401)</u>	<u>53,103</u>
Net increase in cash and cash equivalents	1,258	57,562
Cash and cash equivalents at beginning of period	<u>24,119</u>	<u>51,477</u>
Cash and cash equivalents at end of period	<b><u>\$ 25,377</u></b>	<b><u>\$109,039</u></b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash payments for interest	<b><u>\$ 8,964</u></b>	<b><u>\$ 23,500</u></b>

During the nine months ended September 30, 1994, a credit to shareholders' equity of \$4,246 was recorded to reflect an unrealized gain on securities available for sale (see Note 2).

See notes to consolidated financial statements.

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Consolidated Financial Statements**

The consolidated balance sheet as of September 30, 1994, the consolidated statements of income for the three and nine months ended September 30, 1994 and September 30, 1993 and the consolidated statements of changes in cash flows for the nine months ended September 30, 1994 and September 30, 1993 are unaudited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows at September 30, 1994 and September 30, 1993 have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's 1993 Annual Report to Shareholders. The results of operations for the period ended September 30, 1994 are not necessarily indicative of the operating results for the full year.

**2. Adoption of SFAS No. 115**

On January 1, 1994, the Company adopted Statement of Financial Accounting Standards No. 115 - Accounting for Certain Investments in Debt and Equity Securities (SFAS No. 115). In accordance with SFAS No. 115, the Company has classified its investments in U. S. treasury obligations and marketable securities as investments available for sale and trading securities and accounted for such investments at September 30, 1994 at fair value. Unrealized gains and losses for the three and nine months ended September 30, 1994 are included in earnings for trading securities and as a component of shareholders' equity for securities available for sale at September 30, 1994.

The cost and market value of investments are as follows:

(amounts in thousands)	<u>September 30, 1994</u>		<u>December 31, 1993</u>	
	<u>Cost</u>	<u>Market</u>	<u>Cost</u>	<u>Market</u>
Securities available for sale:				
U.S.treasury obligations	\$ 66,299	\$ 67,456	\$ 66,401	\$ 70,284
Other equity and debt securities	<u>23,903</u>	<u>26,992</u>	<u>31,617</u>	<u>36,299</u>
	90,202	94,448	98,018	106,583
Trading securities	<u>2,579</u>	<u>2,634</u>	<u>3,657</u>	<u>3,784</u>
Total Investments	<u>\$ 92,781</u>	<u>\$ 97,082</u>	<u>\$101,675</u>	<u>\$110,367</u>

**VORNADO REALTY TRUST**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**3. Related Party Transactions**

Steven Roth, Chairman of the Board and Chief Executive Officer of the Company, is a general partner of Interstate Properties, a 32.5% shareholder of the Company.

A) In July 1992, the Company was retained by Alexander's Inc. to act as a special real estate consultant with respect to the leasing or sale of certain assets in connection with Alexander's reorganization proceedings under Chapter 11 of the Bankruptcy Code. Interstate owns 1,354,568 shares, or 27.1% of the common stock of Alexander's and Mr. Roth is a director of Alexander's. The Company owns 113,100 shares, or 2.3%, of the common stock of Alexander's and, because of the relationship between Interstate, Mr. Roth and the Company, Interstate and the Company have filed as a "group" with the Securities and Exchange Commission in connection with their respective holdings in Alexander's.

Subject to the payment of rents by underlying tenants pursuant to leases and to the prior satisfaction of all payments to which certain creditors of Alexander's are entitled under a plan of reorganization (approved by the Bankruptcy Court in September 1993), the Company is due approximately \$12.7 million to be paid over a seven year period, for transactions completed to date. Of this amount, the Company was paid \$500,000 on July 1, 1993 to reimburse it for costs and expenses incurred by it in connection with the performance of services under the agreement. The Company was due to receive an additional \$500,000 on July 1, 1994 but has not received such payments as of this date. These reimbursements are credited against the fees to which the Company is entitled. General and administrative expenses for the nine months ended September 30, 1994 were reduced by \$250,000 to reflect the accrual of the remaining portion of the \$500,000 reimbursement which covered the year ended June 30, 1994.

B) The Company currently manages and leases the six shopping centers of Interstate Properties pursuant to a Management Agreement for which the Company receives a quarterly fee equal to 4% of base rent and percentage rent and certain other commissions. General and administrative expenses were reduced by management fees earned by the Company pursuant to the Management Agreement of \$189,000 and \$192,000 for the three months ended September 30, 1994 and 1993 and \$635,000 and \$695,000 for the nine months ended September 30, 1994 and 1993.

## VORNADO REALTY TRUST

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### RESULTS OF OPERATIONS

Property rentals were \$17,519,000 for the quarter ended September 30, 1994, compared to \$16,826,000 for the quarter ended September 30, 1993, an increase of \$693,000. Property rentals were \$52,054,000 for the nine months ended September 30, 1994, compared to \$50,319,000 for the nine months ended September 30, 1993, an increase of \$1,735,000. These increases resulted from rental step-ups in existing tenant leases which are not subject to the straight-line method of revenue recognition of \$467,000 and \$1,401,000 and rentals received from new tenants exceeding rentals lost from vacating tenants by \$226,000 and \$334,000.

Operating expenses increased by \$151,000 to \$1,916,000 for the quarter ended September 30, 1994, compared to \$1,765,000 in the prior year's quarter. Expenses were lower in the prior year's quarter as a result of real estate tax refunds received during that period. Operating expenses decreased by \$799,000 to \$5,654,000 for the nine months ended September 30, 1994, compared to \$6,453,000 in the prior year's nine months. Of this decrease (i) \$322,000 resulted from savings in connection with the closing of the Watchung outlet department store as part of a redevelopment plan for the property, (ii) \$200,000 was attributable to an increase in tenant reimbursements in connection with leases which commenced subsequent to January 1, 1993 and (iii) \$277,000 was attributable to lower repairs and maintenance, bad debt expense and professional fees.

Depreciation and amortization expense for the three and nine months ended September 30, 1994 did not change significantly from such expense for the prior year's periods.

General and administrative expenses increased by \$489,000 to \$1,156,000 for the quarter ended September 30, 1994 compared to \$667,000 in the prior year's quarter. General and administrative expenses increased by \$594,000 to \$3,633,000 for the nine months ended September 30, 1994, compared to \$3,039,000 in the prior year's nine months. Expenses were lower in the prior year's quarter and nine months as a result of the receipt of a \$500,000 expense reimbursement in the third quarter of the prior year in connection with the Company's agreement with Alexander's (see Note 3).

Investment income from cash and cash equivalents and securities, net of amounts due for U.S. treasury obligations (collectively, "Liquid Investments") was \$2,127,000 for the quarter ended September 30, 1994, compared to \$3,449,000 for the prior year's quarter, a decrease of \$1,322,000. Investment income was \$6,155,000 for the nine months ended September 30, 1994 compared to \$9,376,000 for the prior year's nine months, a decrease of \$3,221,000. The changes in investment income were due to decreases in interest and dividend income as a result of lower average investments during the current year's periods as compared to the prior year's periods, partially offset by an increase in net gains on the sale of marketable securities.

Interest and debt expense was \$3,546,000 for the quarter ended September 30, 1994 as compared to \$8,365,000 in the prior year's quarter, a decrease of \$4,819,000. Interest and debt expense was \$10,823,000 for the nine months ended September 30, 1994 compared to \$25,083,000 for the prior year's nine months, a decrease of \$14,260,000. Of these decreases (i) \$4,042,000 and \$12,126,000 resulted from the November 1993 refinancing of \$327,000,000 of debt (which had an interest rate of 9.36%) with the proceeds of a private placement of \$227,000,000 of 7-year notes with a fixed rate of interest of 6.36% and \$100,000,000 of working capital and (ii) \$378,000 and \$1,021,000 were due to interest capitalized during construction.



## VORNADO REALTY TRUST

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company operates in a manner intended to enable it to qualify as a real estate investment trust under Sections 856-860 of the Internal Revenue Code (the "Code"). Under those sections, a trust which distributes at least 95% of its real estate investment trust taxable income to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. The Company intends to qualify for 1994 and plans to distribute in 1994 amounts greater than its taxable income. Therefore, no provision for Federal income taxes is required.

#### LIQUIDITY AND CAPITAL RESOURCES

On September 30, 1994, the Company had Liquid Investments of \$83,800,000 (excluding Unrealized Gains on Securities Available for Sale) compared to \$102,900,000 at December 31, 1993, a decrease of \$19,100,000. This decrease resulted from dividends paid to shareholders of \$32,400,000 and capital expenditures of \$17,300,000, partially offset by net cash provided by operating activities of \$30,700,000. The major items of capital expenditures for the nine months ended September 30, 1994 were (i) \$7,900,000 for expansions in three New Jersey shopping centers, (ii) \$3,700,000 for the acquisition of a building in Philadelphia, Pennsylvania to be leased to retail tenants and (iii) \$1,500,000 for the tenant improvements at the Company's retail property at 14th Street in Manhattan, New York.

Funds from operations was \$12,800,000 for the quarter ended September 30, 1994 compared to \$9,600,000 in the prior year's quarter, an increase of \$3,200,000 or 33%. Funds from operations was \$37,200,000 for the nine months ended September 30, 1994 compared to \$25,100,000 in the prior year's nine months, an increase of \$12,100,000 or 48%. The increases in funds from operations were significantly affected by lower net interest expense (interest expense, net of investment income) resulting from the Company's refinancing of long-term debt in November 1993. Funds from operations represents income from continuing operations before income taxes plus depreciation and amortization (including debt issuance costs) less straight-lining of rents and realized gains on securities available for sale (\$62,000 and \$191,000 for the nine months ended September 30, 1994 and 1993). Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs. Funds from operations should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity.

In the second quarter, the Company's shelf registration statement relating to \$350,000,000 of securities became effective.

The Company maintains a \$5,000,000 unsecured line of credit with a bank. As of September 30, 1994, approximately \$1,400,000 of standby letters of credit were outstanding under this facility.

The Company anticipates that adequate cash from continuing operations and working capital will be available to fund its business operations, capital expenditures, debt service obligations and the payment of dividends.

**VORNADO REALTY TRUST**

**PART II. OTHER INFORMATION**

**Item 6. Exhibits and Reports on Form 8-K.**

- (a) Exhibits: The following exhibits are filed with this Quarterly Report on Form 10-Q.

11 Statement Re Computation of Per Share Earnings.

27 Financial Data Schedule

- (b) Reports on Form 8-K

NONE

**VORNADO REALTY TRUST**

**SIGNATURES**

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

**VORNADO REALTY TRUST**  
**(Registrant)**

Date: November 10, 1994

**/s/ Joseph Macnow**  
**JOSEPH MACNOW**  
**Vice President - Chief Financial**  
**Officer and Chief Accounting Officer**

**VORNADO REALTY TRUST**

**EXHIBIT INDEX**

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