

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: June 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)

07662

(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 July 15, 1994 there were 21,622,361 common shares outstanding.

VORNADO REALTY TRUST

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PART I. FINANCIAL INFORMATION

VORNADO REALTY TRUST

CONSOLIDATED BALANCE SHEETS
(amounts in thousands except share amounts)

	June 30, 1994	December 31, 1993		June 30, 1994	December 31, 1993
ASSETS:					
Real estate, at cost:					
Land	\$ 60,280	\$ 60,280			
Buildings and improvements	262,438	274,696			
Leasehold improvements and equipment	5,619	5,439			
Total	348,337	340,415			
Less accumulated depreciation and amortization	(123,594)	(118,742)			
Real estate, net	224,743	221,673			
Cash and cash equivalents, including U.S. government obligations under repurchase agreements of \$1,556 and \$3,332	17,513	24,119			
Securities available for sale	96,234	98,018			
Trading securities	4,919	3,657			
Due from officer	8,418	8,418			
Accounts receivable, net of allowance for doubtful accounts of \$346 and \$402	6,172	4,199			
Income taxes receivable	-	672			
Prepaid expenses	1,446	1,645			
Receivable arising from the straight-lining of rents	10,626	9,626			
Debt issue costs	5,924	5,972			
Other assets	7,618	7,831			
TOTAL ASSETS	\$383,613	\$385,830			
LIABILITIES AND SHAREHOLDERS' EQUITY:					
Notes and mortgages payable	\$234,629	\$234,629			
Due for U.S. treasury obligations	22,321	22,847			
Accounts payable and accrued expenses	4,980	9,033			
Other liabilities	3,238	3,176			
Total liabilities	265,168	270,693			
Commitments and contingencies					
Shareholders' equity:					
Preferred shares of beneficial interest: no par value per share; authorized, 1,000,000 shares; issued, none					
Common shares of beneficial interest: \$0.04 par value per share; authorized, 50,000,000 shares; issued, 21,622,361 and 21,603,266 shares	864	864			
Additional capital	197,776	197,575			
Accumulated deficit	(78,934)	(77,517)			
Unrealized gain on securities available for sale	3,924	-			
Due from officers for purchase of common shares of beneficial interest	(5,185)	(5,185)			
Total shareholders' equity	118,445	115,737			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$383,613	\$385,830			

See notes to consolidated financial statements.

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands except share amounts)

	<u>FOR THE THREE MONTHS ENDED</u>		<u>FOR THE SIX MONTHS ENDED</u>	
	<u>June 30,</u> <u>1994</u>	<u>June 30,</u> <u>1993</u>	<u>June 30,</u> <u>1994</u>	<u>June 30,</u> <u>1993</u>
Property rentals	<u>\$17,387</u>	<u>\$16,791</u>	<u>\$34,535</u>	<u>\$33,493</u>
Expenses:				
Operating, net	1,843	2,537	3,738	4,688
Depreciation and amortization	2,457	2,349	4,853	4,662
General and administrative (net of of fee income from related parties)	1,300	1,201	2,477	2,372
Costs in connection with the merger of Vornado, Inc. into Vornado Realty Trust	<u>-</u>	<u>856</u>	<u>-</u>	<u>856</u>
	<u>5,600</u>	<u>6,943</u>	<u>11,068</u>	<u>12,578</u>
Operating income	11,787	9,848	23,467	20,915
Interest and dividend income	1,905	3,125	3,785	5,736
Interest and debt expense	(3,628)	(8,324)	(7,277)	(16,718)
Net gain on marketable securities	<u>50</u>	<u>81</u>	<u>243</u>	<u>191</u>
Income from continuing operations before income tax benefit	10,114	4,730	20,218	10,124
Benefit for federal and state income taxes	<u>-</u>	<u>(8,523)</u>	<u>-</u>	<u>(6,369)</u>
Income from continuing operations	10,114	13,253	20,218	16,493
(Loss) from discontinued operation	<u>-</u>	<u>(240)</u>	<u>-</u>	<u>(600)</u>
NET INCOME	<u>\$10,114</u>	<u>\$13,013</u>	<u>\$20,218</u>	<u>\$15,893</u>
Net Income (Loss) Per Share:				
Continuing operations	<u>\$.46</u>	<u>\$.69</u>	<u>\$.92</u>	<u>\$.93</u>
Discontinued operation	<u>-</u>	<u>(.01)</u>	<u>-</u>	<u>(.03)</u>
	<u>\$.46</u>	<u>\$.68</u>	<u>\$.92</u>	<u>\$.90</u>
Weighted average number of common shares and common share equivalents outstanding during period	21,866,594	19,193,087	21,868,485	17,789,292
Dividends per share	\$.50	\$.31	\$1.00	\$.62

See notes to consolidated financial statements.

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	<u>FOR THE SIX MONTHS ENDED</u>	
	<u>June 30, 1994</u>	<u>June 30, 1993</u>
Cash flows from operating activities:		
Income from continuing operations	\$ 20,218	\$ 16,493
Adjustments to reconcile income to net cash provided by continuing operations:		
Depreciation and amortization		
(Including debt issuance costs)	5,290	5,731
Straight-lining of rental income	(1,000)	(1,000)
Reversal of deferred income taxes	-	(6,369)
Net gain on securities	(243)	(191)
Changes in assets and liabilities:		
Accounts receivable and prepaid expenses	(1,774)	(1,405)
Due to officer	-	(12,753)
Accounts payable and accrued expenses	(4,053)	(245)
Income taxes receivable	672	4,723
Other	<u>(118)</u>	<u>193</u>
Net cash provided by operating activities of continuing operations	18,992	5,177
Net cash (used in) operating activities of discontinued operation	<u>-</u>	<u>(600)</u>
Net cash provided by operating activities	<u>18,992</u>	<u>4,577</u>
Cash flows from investing activities:		
Additions to real estate	(7,718)	(2,617)
Purchases of securities	(4,478)	(858)
Proceeds from sale of securities	<u>9,167</u>	<u>1,395</u>
Net cash (used in) investing activities	<u>(3,029)</u>	<u>(2,080)</u>
Cash flows from financing activities:		
Due for U.S. treasury obligations	(526)	(29,786)
Payments on borrowings	(408)	(2,408)
Dividends paid	(21,635)	(11,475)
Net loans to officer	-	(5,500)
Net proceeds from issuance of common shares	-	172,051
Distribution of accumulated earnings and profits	<u>-</u>	<u>(54,022)</u>
Net cash (used in) provided by financing activities	<u>(22,569)</u>	<u>68,860</u>
Net (decrease) increase in cash and cash equivalents	(6,606)	71,357
Cash and cash equivalents at beginning of period	<u>24,119</u>	<u>51,477</u>
Cash and cash equivalents at end of period	<u>\$ 17,513</u>	<u>\$122,834</u>
Supplemental disclosure of cash flow information:		
Cash payments for interest	<u>\$ 6,840</u>	<u>\$ 15,649</u>

During the six months ended June 30, 1994, a credit to shareholders' equity of \$3,924 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 June 30, 1994, the consolidated statements of income for the three and six months ended June 30, 1994 and June 30, 1993 and the consolidated statements of changes in cash flows for the six months ended June 30, 1994 and June 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 June 30, 1994 and June 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 June 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 June 30, 1994 at fair value. Unrealized gains and losses for the three and six months ended June 30, 1994 are included in earnings for trading securities and as a component of shareholders' equity for securities available for sale.

The cost and market value of investments are as follows:

(amounts in thousands)	<u>June 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	\$ 66,340	\$ 67,098	\$ 66,401	\$ 70,284
Other equity and debt securities	<u>25,970</u>	<u>29,136</u>	<u>31,617</u>	<u>36,299</u>
	92,310	96,234	98,018	106,583
Trading securities	<u>5,000</u>	<u>4,919</u>	<u>3,657</u>	<u>3,784</u>
Total investments	<u>\$ 97,310</u>	<u>\$101,153</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 August 9, 1994. These reimbursements shall be credited against the fees to which the Company shall be entitled. General and administrative expenses were reduced by \$125,000 in the three months ended June 30, 1994 and \$250,000 in the six months ended June 30, 1994 to reflect the accrual of a portion of the \$500,000 reimbursement which was due on July 1, 1994.

B) The Company is managing and leasing the seven 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 \$207,000 and \$195,000 for the three months ended June 30, 1994 and 1993 and \$446,000 and \$503,000 for the six months ended June 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 \$17,387,000 for the quarter ended June 30, 1994, compared to \$16,791,000 for the quarter ended June 30, 1993, an increase of \$596,000. Property rentals were \$34,535,000 for the six months ended June 30, 1994, compared to \$33,493,000 for the six months ended June 30, 1993, an increase of \$1,042,000. 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 \$934,000 and rentals received from new tenants exceeding rentals lost from vacating tenants by \$129,000 and \$108,000.

Operating expenses were \$1,843,000 for the quarter ended June 30, 1994, compared to \$2,537,000 for the quarter ended June 30, 1993, a decrease of \$694,000. Operating expenses were \$3,738,000 for the six months ended June 30, 1994, compared to \$4,688,000 for the six months ended June 30, 1993, a decrease of \$950,000. Of these decreases (i) \$142,000 and \$322,000 resulted from savings in connection with the closing of the Watchung outlet department store as part of a redevelopment plan for this property, (ii) \$180,000 and \$353,000 were attributable to an increase in tenant reimbursements in connection with leases which commenced subsequent to January 1, 1993 and (iii) \$136,000 and \$267,000 were primarily attributable to real estate tax refunds received in the second quarter of 1994.

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

General and administrative expenses were \$1,300,000 for the quarter ended June 30, 1994, compared to \$1,201,000 for the quarter ended June 30, 1993, an increase of \$99,000. General and administrative expenses were \$2,477,000 for the six months ended June 30, 1994, compared to \$2,372,000 for the six months ended June 30, 1993, an increase of \$105,000. These increases resulted primarily from higher professional fees and other corporate office expenses, partially offset by an increase in fee income from related parties included as a reduction of general and administrative expenses.

Investment income from cash and cash equivalents and securities, net of amounts due for U.S. treasury obligations (collectively, "Liquid Investments") was \$1,955,000 for the quarter ended June 30, 1994, compared to \$3,206,000 for the prior year's quarter, a decrease of \$1,251,000. Investment income was \$4,028,000 for the six months ended June 30, 1994 compared to \$5,927,000 for the prior year's six months, a decrease of \$1,899,000. The changes in investment income were primarily due to decreases in interest and dividend income as a result of lower average investments during the quarter and six months ended June 30, 1994 as compared to the prior year's periods.

Interest and debt expense was \$3,628,000 for the quarter ended June 30, 1994 as compared to \$8,324,000 in the prior year's quarter, a decrease of \$4,696,000. Interest and debt expense was \$7,277,000 for the six months ended June 30, 1994 compared to \$16,718,000 for the prior year's six months, a decrease of \$9,441,000. Of these decreases (i) \$4,042,000 and \$8,085,000 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) \$321,000 and \$643,000 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 1993 and 1994 and has distributed to its shareholders in 1993 and plans to distribute in 1994 amounts greater than its taxable income in each of those years. Therefore, no provision for Federal income taxes is required.

LIQUIDITY AND CAPITAL RESOURCES

On June 30, 1994, the Company had Liquid Investments of \$92,400,000 (excluding Unrealized Gains on Securities Available for Sale) compared to \$102,900,000 at December 31, 1993, a decrease of \$10,500,000. This decrease resulted from dividends paid to shareholders of \$21,600,000 and capital expenditures of \$7,700,000, partially offset by net cash provided by operating activities of \$19,000,000.

Funds from operations was \$24,400,000 for the six months ended June 30, 1994 compared to \$15,500,000 in the prior year's period, an increase of \$8,900,000 or 57.4%. The increase in funds from operations was 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 (\$74,000 and \$191,000 for the six months ended June 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.

On May 16, 1994, 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 June 30, 1994, approximately \$1,000,000 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.

- (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: August 9, 1994

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

VORNADO REALTY TRUST

EXHIBIT INDEX

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