

VNOSECURITIES 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 1934For the quarterly period ended: September 30, 1993

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)22-1657560(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 October 15, 1993 there were 21,566,153 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)

	September 30, 1993	September 30, 1992		September 30, 1993	September 31, 1992
ASSETS:					
Real estate, at cost:					
Land	\$ 45,255	\$ 45,089			
Buildings and improvements	269,317	265,487			
Leasehold improvements and equipment	4,710	4,075			
Total	319,282	314,651			
Less accumulated depreciation and amortization	(118,154)	(111,142)			
Real estate, net	201,128	203,509			
Cash and cash equivalents, including U.S. government obligations under repurchase agreements of \$12,641 and \$10,604	109,039	51,477			
U.S. treasury obligations, at amortized cost (market - \$121,422 and \$121,715)	117,858	117,029			
Marketable securities, carried at the lower of cost or market (market -\$22,669 and \$16,506)	16,004	12,998			
Due from officer	8,418	2,918			
Accounts receivable, net of allowance for doubtful accounts of \$337 in each period	4,761	4,043			
Income taxes receivable	6,052	10,775			
Prepaid expenses	2,960	1,488			
Other assets	16,783	16,379			
TOTAL ASSETS	\$483,003	\$420,616			
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT):					
Mortgages payable	\$331,271	\$341,701			
Due for U.S. treasury obligations	22,828	52,895			
Due to officer	-	12,753			
Accounts payable and accrued expenses	6,342	6,422			
Deferred income taxes	-	6,369			
Other liabilities	3,250	3,718			
Total liabilities	363,691	423,858			
Commitments and contingencies					
Shareholders' equity (deficit):					
Preferred shares of beneficial interest: no par value per share; authorized, 1,000,000 shares; issued, none					
Common shares of beneficial interest: \$0.4 par value per share; authorized, 50,000,000 shares; issued, 21,522,235 and 21,064,134 shares	860	842			
Additional capital	196,102	75,726			
Retained earnings (deficit)	(72,945)	(107,945)			
Less:					
Common stock held in treasury (shares substantially before stock splits), 5,007,024 shares at cost at December 31, 1992	-	183,050			
Due from officer for purchase of common shares of beneficial interest	4,705	4,705			
Total shareholders' equity (deficit)	119,312	(3,242)			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	\$483,003	\$420,616			

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 NINE MONTHS ENDED</u>	
	<u>September 30,</u> <u>1993</u>	<u>September 30,</u> <u>1992</u>	<u>September 30,</u> <u>1993</u>	<u>September 30,</u> <u>1992</u>
Property rentals	<u>\$16,826</u>	<u>\$15,755</u>	<u>\$50,319</u>	<u>\$46,779</u>
Expenses:				
Operating, net	1,765	2,033	6,453	6,753
Depreciation and amortization	2,350	2,348	7,012	6,955
General and administrative	667	1,081	3,039	3,205
Costs in connection with the merger of Vornado, Inc. into Vornado Realty Trust	<u>-</u>	<u>-</u>	<u>856</u>	<u>-</u>
	<u>4,782</u>	<u>5,462</u>	<u>17,360</u>	<u>16,913</u>
Operating income	<u>12,044</u>	<u>10,293</u>	<u>32,959</u>	<u>29,866</u>
Interest and dividend income	3,449	2,187	9,185	6,415
Interest and debt expense	(8,365)	(8,460)	(25,083)	(25,514)
Net gain on marketable securities	<u>-</u>	<u>2</u>	<u>191</u>	<u>1,827</u>
Income from continuing operations before income taxes	7,128	4,022	17,252	12,594
Provision (benefit) for federal and state income taxes	<u>-</u>	<u>1,598</u>	<u>(6,369)</u>	<u>5,066</u>
Income from continuing operations	7,128	2,424	23,621	7,528
(Loss) from discontinued operation	<u>-</u>	<u>-</u>	<u>(600)</u>	<u>-</u>
NET INCOME	<u>\$ 7,128</u>	<u>\$ 2,424</u>	<u>\$23,021</u>	<u>\$ 7,528</u>
Net Income Per Share:				
Continuing operations	\$.33	\$.15	\$1.24	\$.45
Discontinued operation	<u>-</u>	<u>-</u>	<u>(.03)</u>	<u>-</u>
NET INCOME	<u>\$.33</u>	<u>\$.15</u>	<u>\$1.21</u>	<u>\$.45</u>
Weighted average number of common shares and common share equivalents outstanding during period	21,654,098	16,558,446	19,077,560	16,528,593
Dividends per share	\$.44	\$.28	\$1.06	\$.84

See notes to consolidated financial statements.

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	<u>FOR THE NINE MONTHS ENDED</u>	
	<u>September 30, 1993</u>	<u>September 30, 1992</u>
Cash flows from operating activities:		
Income from continuing operations	\$ 23,621	\$ 7,528
Adjustments to reconcile net income to net cash provided by continuing operations:		
Depreciation and amortization (including debt issuance costs)	8,595	8,577
Straight-lining of rental income	(1,500)	(1,563)
Reversal of deferred income taxes	(6,369)	-
Net gain on marketable securities	(244)	(1,827)
Changes in assets and liabilities:		
Accounts receivable and prepaid expenses	(2,190)	(3,009)
Due to officer	(12,753)	-
Accounts payable and accrued expenses	(80)	(2,148)
Income taxes receivable	4,723	803
Other	<u>(522)</u>	<u>(650)</u>
Net cash provided by operating activities of continuing operations	13,181	12,007
Net cash provided by (used in) operating activities of discontinued operation	<u>(600)</u>	<u>2,185</u>
Net cash provided by operating activities	<u>12,681</u>	<u>14,192</u>
Cash flows from investing activities:		
Additions to real estate	(4,631)	(8,657)
Purchases of marketable securities and U.S. treasury obligations	(4,986)	(2,085)
Proceeds from sale of marketable securities and U.S. treasury obligations	<u>1,395</u>	<u>2,863</u>
Net cash (used in) investing activities	<u>(8,222)</u>	<u>(7,879)</u>
Cash flows from financing activities:		
Net proceeds from issuance of common shares	172,051	-
Distribution of accumulated earnings and profits	(54,022)	-
Due for U.S. treasury obligations	(30,067)	(4,417)
Payments on borrowings	(10,430)	(6,921)
Dividends paid	(20,944)	(12,850)
Net loans to officer	(5,500)	-
Acquisition of common stock held in treasury	-	(89)
Exercise of stock options	<u>2,015</u>	<u>-</u>
Net cash provided by (used in) financing activities	<u>53,103</u>	<u>(15,443)</u>
Net increase (decrease) in cash and cash equivalents	57,562	(9,130)
Cash and cash equivalents at beginning of period	<u>51,477</u>	<u>14,686</u>
Cash and cash equivalents at end of period	<u>\$109,039</u>	<u>\$ 5,556</u>
Supplemental disclosure of cash flow information:		
Cash payments for income taxes	<u>\$ -</u>	<u>\$ 459</u>
Cash payments for interest	<u>\$ 23,500</u>	<u>\$ 21,497</u>

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, 1993, the consolidated statements of income for the three and nine months ended September 30, 1993 and September 30, 1992 and the consolidated statements of changes in cash flows for the nine months ended September 30, 1993 and September 30, 1992 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, 1993 and September 30, 1992 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 1992 Annual Report to Shareholders. The results of operations for the period ended September 30, 1993 are not necessarily indicative of the operating results for the full year.

2. Qualification as a Real Estate Investment Trust for Federal Income Tax Purposes ("REIT") for 1993

On May 6, 1993, Vornado, Inc. merged into Vornado Realty Trust, a Maryland real estate investment trust. Vornado Realty Trust was formed on March 29, 1993, as a wholly owned subsidiary of Vornado, Inc., specifically for the purpose of the merger and is the surviving entity in the merger. In connection with the merger, the Company incurred costs of \$856,000 which have been reflected as an expense in the Consolidated Statements of Income.

On May 21, 1993, the Company completed the sale of 5,211,700 common shares of beneficial interest (including 211,700 shares which closed on June 4, 1993 pursuant to an election of the underwriters to exercise, in part, their over-allotment option) in a public offering at \$35½, which net of expenses yielded \$172,051,000 to the Company.

On June 3, 1993, the Company distributed to its shareholders a special dividend of \$54,022,000 of accumulated earnings and profits as determined for Federal income tax purposes.

The Company intends to file, with its Federal income tax return for 1993, an election to be treated as a Real Estate Investment Trust for Federal income tax purposes.

3. Income Taxes

As a result of the Company's conversion to a real estate investment trust, the deferred tax balance of \$6,369,000 at December 31, 1992 was reversed in the second quarter of 1993 resulting in an income tax benefit.

4. Retirement of Treasury Stock

In the second quarter of 1993, the Company retired its outstanding treasury shares which were carried on the Balance Sheet in the amount of \$183,050,000. The retirement of the shares, which was a non-cash transaction, was recorded by reducing the common stock account \$(200,000), additional capital \$(53,917,000) and retained earnings \$(128,933,000).

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Related Party Transactions

Steven Roth, Chairman of the Board and Chief Executive Officer of the Company is a 3.5% shareholder of the Company and is a General Partner of Interstate Properties, a 33.4% shareholder of the Company.

(A) At September 30, 1993, the loan due from Mr. Roth in connection with the exercise of a stock option was \$13,123,000 (\$4,705,000 of which is reflected as a reduction in shareholders equity). The loan bears interest, payable quarterly at a rate equal to the broker call rate (5% at September 30, 1993) but not less than the minimum applicable federal rate provided under the Internal Revenue Code and is due on December 29, 1997.

(B) 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 currently pending under Chapter XI of the Bankruptcy Code. Interstate Properties owns 1,354,568 shares or 27.2% of the common stock of Alexander's and Mr. Roth and Richard West, trustees of the Company, are directors 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 Properties, Mr. Roth and the Company, Interstate Properties and the Company filed as a "group" with the Securities and Exchange Commission in connection with their respective holdings in Alexander's. The Company is due a fee of approximately \$6,500,000 over a three year period for transactions completed to date providing for the leasing of, or the sale of leases on approximately two-thirds of Alexander's store properties. Such fee is contingent upon payment of rents by the underlying tenants pursuant to the leases and to the prior satisfaction of all payments to which certain creditors of Alexander's are entitled under the plan of reorganization confirmed by such creditors. The Company was paid \$500,000 on July 1, 1993 and will be paid an additional \$500,000 on July 1, 1994 (for the period from July 1, 1993 to June 30, 1994) to reimburse it for costs and expenses incurred by it in connection with the performance of services under the agreement. These reimbursements shall be credited against the fees to which the Company shall be entitled. In the third quarter, general and administrative expenses were reduced by \$625,000 to reflect the receipt of the July 1, 1993 \$500,000 reimbursement and the accrual of one-quarter of the \$500,000 reimbursement due July 1, 1994.

(C) 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. For the period from January 1, 1993 through September 30, 1993, \$695,000 of management fees were earned by the Company pursuant to the Management Agreement.

6. Discontinued Operation

In March of 1993 the Company recorded an expense of \$600,000 to reflect the settlement of disputes which arose from the sale of certain assets of the Company's fleece apparel business in 1991.

7. Subsequent Event

A subsidiary of the Company has entered into a contract to purchase a building at 40 East 14th Street, Manhattan, New York for \$16,600,000. The completion of the transaction is subject to closing conditions and is expected to occur by year end. In addition, the Company expects to spend approximately \$3,400,000 for improvements to the building in 1994. The Company has entered into a letter of intent with Bradlees, Inc. to lease the entire building under which rent is expected to commence in November 1994.

VORNADO REALTY TRUST

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

RESULTS OF OPERATIONS

Property rentals were \$16,826,000 for the quarter ended September 30, 1993, compared to \$15,755,000 for the quarter ended September 30, 1992, an increase of \$1,071,000. Property rentals were \$50,319,000 for the nine months ended September 30, 1993, compared to \$46,779,000 for the nine months ended September 30, 1992, an increase of \$3,540,000. These increases resulted primarily from rental step-ups in existing tenant leases, which are not subject to the straight-line basis of revenue recognition, of \$409,000 and \$1,492,000 in the three and nine months ended September 30 and property rentals received from new tenants in each of such periods exceeding property rentals lost from vacating tenants.

Operating expenses decreased primarily as a result of real estate tax refunds received in the third quarter of 1993.

Depreciation and amortization expense for the three and nine months ended September 30, 1993 did not change significantly from such expense for the prior year's periods.

General and administrative expenses decreased by \$414,000 in the quarter and \$166,000 for the nine months. The net decreases resulted from \$625,000 of expense reimbursement in connection with the Company's agreement with Alexander's (see Note 5) offset, primarily by an increase in professional fees.

On May 6, 1993, Vornado, Inc. merged into Vornado Realty Trust, a Maryland real estate investment trust. Vornado Realty Trust was formed on March 29, 1993, as a wholly owned subsidiary of Vornado, Inc., specifically for the purpose of the merger and is the surviving entity in the merger. In connection with the merger, the Company incurred costs of \$856,000 which have been reflected as an expense in the Consolidated Statements of Income.

Investment income from cash and cash equivalents, net U.S. Treasury obligations and marketable securities (collectively, "Liquid Investments") was \$3,449,000 for the quarter ended September 30, 1993, compared to \$2,189,000 for the prior year's quarter, an increase of \$1,260,000. Investment income was \$9,376,000 for the nine months ended September 30, 1993 compared to \$8,242,000 for the prior year's nine months, a increase of \$1,134,000. The changes in investment income for the quarter and the nine months ended September 30, 1993 compared to the prior year's periods, resulted primarily from increases in interest and dividend income of \$1,262,000 and \$2,770,000 offset in the nine months by a decrease in net gains on the sale of marketable securities of \$1,636,000 (including \$1,183,000 from the Company's investment in a limited partnership, which was liquidated at December 31, 1992 at book value for cash). Of the increases in interest and dividend income, \$850,000 for the quarter and \$1,360,000 for the nine months was attributable to interest income on the net proceeds from the issuance of 5,211,700 common shares of beneficial interest in May 1993, net of a distribution of accumulated earnings and profits and the balance resulted from the mix of other investments.

Interest and debt expense for the quarter and nine months ended September 30, 1993, did not change significantly from such expense for the prior year's periods.

As a result of the Company's conversion to a real estate investment trust, the deferred tax balance of \$6,369,000 at December 31, 1992 was reversed resulting in an income tax benefit in the nine months ended September 30, 1993. As a REIT, subject to compliance with the provisions of the Internal Revenue Code, the Company does not anticipate paying Federal income taxes in the future.

VORNADO REALTY TRUST

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

LIQUIDITY AND CAPITAL RESOURCES

On September 30, 1993, the Company had Liquid Investments of \$220,100,000 compared to \$128,600,000 at December 31, 1992, an increase of \$91,500,000. The increase in Liquid Investments resulted primarily from the net cash proceeds from a public share offering of \$172,000,000 (see Note 2) and net cash provided from operating activities of \$12,700,000 (net of payments to an officer of \$12,800,000 in connection with the exercise of a stock option and the subsequent repurchase of a portion of the shares) partially offset by (i) dividends paid to shareholders of \$75,000,000 including a special dividend of \$54,000,000 of accumulated earnings and profits as determined for Federal income tax purposes (ii) debt repayments of \$10,400,000 (including \$6,700,000 of prepayments) (iii) net loans to an officer of \$5,500,000 in connection with the option exercise referred to above (\$7,000,000 of loans, net of a \$1,500,000 repayment in February 1993) and (iv) capital expenditures of \$4,600,000 .

Funds from operations, was \$25,100,000 for the nine months ended September 30, 1993 compared to \$19,000,000 in the prior year's nine months, an increase of \$6,100,000 or 32%. 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 gains on the sale of marketable securities (other than gains from the Company's investment in a limited partnership) and in 1993, excluding costs incurred in connection with the merger (see Note 2). 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.

The Company has \$314,000,000 of debt outstanding under a blanket mortgage loan scheduled to mature in January 1994. The Company intends to prepay the blanket mortgage loan in its entirety, as well as approximately \$7,000,000 of other mortgage debt, with the proceeds from the issuance of secured debt and approximately \$100,000,000 of working capital.

A subsidiary of the Company has entered into a contract to purchase a building at 40 East 14th Street, Manhattan, New York for \$16,600,000. The completion of the transaction is subject to closing conditions and is expected to occur by year end. In addition, the Company expects to spend approximately \$3,400,000 for improvements to the building in 1994. The Company has entered into a letter of intent with Bradlees, Inc. to lease the entire building under which rent is expected to commence in November 1994.

The Company maintains a \$5,000,000 unsecured line of credit with a bank. As of September 30, 1993, approximately \$3,000,000 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.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 1993, the Financial Accounting Standards Board adopted Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities". The statement is effective for fiscal years beginning after December 15, 1993. Based upon the Trust's classification of its security portfolio for purposes of the accounting pronouncement, adoption of this standard will not have a material impact on the results of operations.

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: November 8, 1993

/s/ Joseph Macnow

JOSEPH MACNOW

**Vice President - Chief Financial
Officer and Chief Accounting Officer**

VORNADO REALTY TRUST

EXHIBIT INDEX

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