

VORNADO REALTY TRUST  
Form 10-Q  
November 01, 2012

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark one)

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

For the quarterly period **September 30, 2012**  
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.

Large Accelerated Filer

Accelerated Filer

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

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of September 30, 2012, 186,143,105 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>September 30, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
Real estate, at cost:		
Land	\$ 4,143,581	\$ 4,416,613
Buildings and improvements	11,851,152	12,041,054
Development costs and construction in progress	865,953	119,540
Leasehold improvements and equipment	128,168	126,712
Total	16,988,854	16,703,919
Less accumulated depreciation and amortization	(3,034,815)	(2,901,203)
Real estate, net	13,954,039	13,802,716
Cash and cash equivalents	465,884	606,553
Restricted cash	391,794	98,068
Marketable securities	485,001	741,321
Accounts receivable, net of allowance for doubtful accounts of \$38,351 and \$43,241	181,242	171,798
Investments in partially owned entities	1,319,710	1,233,650
Investment in Toys "R" Us	549,421	506,809
Real Estate Fund investments	482,442	346,650
Mezzanine loans receivable	131,585	133,948
Receivable arising from the straight-lining of rents, net of allowance of \$4,448 and \$3,290	755,866	701,827
Deferred leasing and financing costs, net of accumulated amortization of \$220,846 and \$237,766	389,155	364,855
Identified intangible assets, net of accumulated amortization of \$362,516 and \$347,039	252,683	295,432
Assets related to discontinued operations	537,938	1,049,153
Due from officers	-	13,127
Other assets	501,056	380,580
	<b>\$ 20,397,816</b>	<b>\$ 20,446,487</b>
<b>LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY</b>		
Notes and mortgages payable	\$ 7,852,657	\$ 8,065,576
Senior unsecured notes	1,357,921	1,357,661
Revolving credit facility debt	600,000	138,000
Exchangeable senior debentures	-	497,898
Convertible senior debentures	-	10,168
Accounts payable and accrued expenses	442,644	423,512
Deferred revenue	465,929	511,959
Deferred compensation plan	103,003	95,457

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Deferred tax liabilities	15,432	13,315
Liabilities related to discontinued operations	478,980	518,319
Other liabilities	396,897	145,498
Total liabilities	11,713,463	11,777,363
Commitments and contingencies		
Redeemable noncontrolling interests:		
Class A units - 11,714,978 and 12,160,771 units outstanding	949,499	934,677
Series D cumulative redeemable preferred units - 1,800,001 and 9,000,001 units outstanding	46,000	226,000
Total redeemable noncontrolling interests	995,499	1,160,677
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 51,184,609 and 42,186,709 shares	1,237,699	1,021,660
Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 186,143,105 and 185,080,020 shares	7,415	7,373
Additional capital	7,136,090	7,127,258
Earnings less than distributions	(1,319,118)	(1,401,704)
Accumulated other comprehensive (loss) income	(160,107)	73,729
Total Vornado shareholders' equity	6,901,979	6,828,316
Noncontrolling interests in consolidated subsidiaries	786,875	680,131
Total equity	7,688,854	7,508,447
	\$ 20,397,816	\$ 20,446,487

See notes to consolidated financial statements (unaudited).

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

	<b>For the Three</b>		<b>For the Nine</b>	
	<b>Months Ended September 30,</b>		<b>Months Ended September 30,</b>	
(Amounts in thousands, except per share amounts)	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>REVENUES:</b>				
Property rentals	\$ 518,141	\$ 530,192	\$ 1,564,168	\$ 1,592,867
Tenant expense reimbursements	80,497	85,757	224,287	237,945
Cleveland Medical Mart development project	72,651	35,135	184,014	108,203
Fee and other income	39,688	36,776	106,018	111,813
Total revenues	710,977	687,860	2,078,487	2,050,828
<b>EXPENSES:</b>				
Operating	264,487	262,837	764,018	773,331
Depreciation and amortization	124,335	126,935	386,974	373,380
General and administrative	48,742	46,121	151,142	154,359
Cleveland Medical Mart development project	70,431	33,419	177,127	101,637
Acquisition related costs and tenant buy-outs	1,070	2,288	4,314	22,455
Total expenses	509,065	471,600	1,483,575	1,425,162
Operating income	201,912	216,260	594,912	625,666
(Loss) income applicable to Toys "R" Us	(8,585)	(9,304)	88,696	80,794
Income from partially owned entities	21,268	13,140	53,491	55,035
Income from Real Estate Fund (of which \$4,787 and \$3,675 in each three-month period, respectively, and \$25,026 and \$15,703 in each nine-month period, respectively, are attributable to noncontrolling interests)	5,509	5,353	37,572	25,491
Interest and other investment income (loss), net	10,523	(30,011)	(22,984)	95,086
Interest and debt expense (including amortization of deferred financing costs of \$5,725 and \$4,670, in each three-month period, respectively, and \$17,204 and \$14,093 in each nine-month period, respectively)	(120,770)	(131,998)	(377,600)	(394,192)
Net gain on disposition of wholly owned and partially owned assets	-	1,298	4,856	7,975
Income before income taxes	109,857	64,738	378,943	495,855

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Income tax expense	(3,015)	(6,959)	(17,319)	(18,548)
Income from continuing operations	106,842	57,779	361,624	477,307
Income from discontinued operations	157,314	8,444	241,024	165,706
Net income	264,156	66,223	602,648	643,013
Less net income attributable to noncontrolling interests in:				
Consolidated subsidiaries	(6,610)	(5,636)	(30,928)	(20,643)
Operating Partnership, including unit distributions	(16,240)	(6,825)	(40,595)	(47,364)
Net income attributable to Vornado	241,306	53,762	531,125	575,006
Preferred share dividends	(20,613)	(17,627)	(56,187)	(47,743)
Discount on preferred unit redemptions	11,700	5,000	11,700	5,000
<b>NET INCOME attributable to common shareholders</b>	<b>\$ 232,393</b>	<b>\$ 41,135</b>	<b>\$ 486,638</b>	<b>\$ 532,263</b>
<b>INCOME PER COMMON SHARE - BASIC:</b>				
Income from continuing operations, net	\$ 0.45	\$ 0.18	\$ 1.40	\$ 2.04
Income from discontinued operations, net	0.80	0.04	1.22	0.85
Net income per common share	\$ 1.25	\$ 0.22	\$ 2.62	\$ 2.89
Weighted average shares outstanding	185,924	184,398	185,656	184,220
<b>INCOME PER COMMON SHARE - DILUTED:</b>				
Income from continuing operations, net	\$ 0.45	\$ 0.18	\$ 1.39	\$ 2.02
Income from discontinued operations, net	0.79	0.04	1.22	0.84
Net income per common share	\$ 1.24	\$ 0.22	\$ 2.61	\$ 2.86
Weighted average shares outstanding	186,655	186,065	186,399	186,039
<b>DIVIDENDS PER COMMON SHARE</b>	<b>\$ 0.69</b>	<b>\$ 0.69</b>	<b>\$ 2.07</b>	<b>\$ 2.07</b>

See notes to consolidated financial statements (unaudited).



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

	<b>For the Three</b>		<b>For the Nine</b>	
	<b>Months Ended September 30,</b>		<b>Months Ended September 30,</b>	
(Amounts in thousands)	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 264,156	\$ 66,223	\$ 602,648	\$ 643,013
Other comprehensive income (loss):				
Change in unrealized net gain (loss) on securities				
available-for-sale	18,358	(161,178)	(202,167)	(120,334)
Pro rata share of other comprehensive (loss) income of nonconsolidated subsidiaries	(12,607)	112	(38,861)	26,477
Change in value of interest rate swap	(2,866)	(24,424)	(8,868)	(42,458)
Other	(30)	(69)	343	(5,114)
Comprehensive income (loss)	267,011	(119,336)	353,095	501,584
Less comprehensive income attributable to noncontrolling interests	(23,027)	(400)	(55,806)	(59,050)
Comprehensive income (loss) attributable to Vornado	\$ 243,984	\$ (119,736)	\$ 297,289	\$ 442,534

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Accumulated								
	Preferred Shares		Common Shares		Additional	Earnings Less Than	Other Comprehensive	Non-controlling	Total
	Shares	Amount	Shares	Amount	Capital	Distributions	Income (Loss)	Interests	Equity
<b>Balance, December 31, 2010</b>	32,340	\$ 783,088	183,662	\$ 7,317	\$ 6,932,728	\$ (1,480,876)	\$ 73,453	\$ 514,695	\$ 6,830,405
Net income	-	-	-	-	-	575,006	-	20,643	595,649
Dividends on common shares	-	-	-	-	-	(381,382)	-	-	(381,382)
Dividends on preferred shares	-	-	-	-	-	(47,905)	-	-	(47,905)
Issuance of Series J preferred shares	9,850	239,037	-	-	-	-	-	-	239,037
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	435	17	38,203	-	-	-	38,220
Under employees' share option plan	-	-	369	15	21,603	(397)	-	-	21,221
Under dividend reinvestment plan	-	-	15	1	1,329	-	-	-	1,330
Contributions:									
Real Estate Fund	-	-	-	-	-	-	-	109,241	109,241
Other	-	-	-	-	-	-	-	364	364
Distributions:									
Real Estate Fund	-	-	-	-	-	-	-	(22,713)	(22,713)
Other	-	-	-	-	-	-	-	(15,604)	(15,604)

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Conversion of Series A preferred shares to common shares	(3)	(165)	5	-	165	-	-	-	-
Deferred compensation shares and options	-	-	10	-	7,866	-	-	-	7,866
Change in unrealized net gain (loss) on securities available-for-sale	-	-	-	-	-	-	(120,334)	-	(120,334)
Pro rata share of other comprehensive income of nonconsolidated subsidiaries	-	-	-	-	-	-	26,477	-	26,477
Change in value of interest rate swap	-	-	-	-	-	-	(42,458)	-	(42,458)
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	114,628	-	-	-	114,628
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	8,957	-	8,957
Discount on redemption of preferred units	-	-	-	-	-	5,000	-	-	5,000
Other	-	(105)	-	-	(4,518)	149	(5,114)	4,558	(5,030)
<b>Balance, September 30, 2011</b>	42,187	\$ 1,021,855	184,496	\$ 7,350	\$ 7,112,004	\$ (1,330,405)	\$ (59,019)	\$ 611,184	\$ 7,362,969

See notes to consolidated financial statements (unaudited).



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

(Amounts in thousands)	Accumulated								
	Preferred Shares		Common Shares		Additional	Earnings Less Than	Other Comprehensive	Non-controlling	Total
	Shares	Amount	Shares	Amount	Capital	Distributions	Income (Loss)	Interests	Equity
<b>Balance, December 31, 2011</b>	42,187	\$ 1,021,660	185,080	\$ 7,373	\$ 7,127,258	\$ (1,401,704)	\$ 73,729	\$ 680,131	\$ 7,508,447
Net income	-	-	-	-	-	531,125	-	30,928	562,053
Dividends on common shares	-	-	-	-	-	(384,353)	-	-	(384,353)
Dividends on preferred shares	-	-	-	-	-	(56,187)	-	-	(56,187)
Issuance of Series K preferred shares	12,000	291,144	-	-	-	-	-	-	291,144
Redemption of Series E preferred shares	(3,000)	(75,000)	-	-	-	-	-	-	(75,000)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	624	25	51,191	-	-	-	51,216
Under employees' share option plan	-	-	414	16	8,915	(16,389)	-	-	(7,458)
Under dividend reinvestment plan	-	-	15	1	1,269	-	-	-	1,270
Contributions:	-	-	-	-	-	-	-	120,606	120,606

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Real Estate Fund Other	-	-	-	-	-	-	-	140	140
Distributions:									
Real Estate Fund	-	-	-	-	-	-	-	(44,910)	(44,910)
Other	-	-	-	-	-	-	-	(10)	(10)
Conversion of Series A preferred shares to common shares	(2)	(105)	3	-	105	-	-	-	-
Deferred compensation shares and options	-	-	7	-	11,009	(339)	-	-	10,670
Change in unrealized net gain (loss) on securities available-for-sale	-	-	-	-	-	-	(202,167)	-	(202,167)
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(38,861)	-	(38,861)
Change in value of interest rate swap	-	-	-	-	-	-	(8,868)	-	(8,868)
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(63,657)	-	-	-	(63,657)
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	15,717	-	15,717
Discount on redemption of preferred units	-	-	-	-	-	11,700	-	-	11,700

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Other	-	-	-	-	-	(2,971)	343	(10)	(2,638)
<b>Balance, September 30, 2012</b>	51,185	\$ 1,237,699	186,143	\$ 7,415	\$ 7,136,090	\$ (1,319,118)	\$ (160,107)	\$ 786,875	\$ 7,688,854

See notes to consolidated financial statements (unaudited).

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

	<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>
(Amounts in thousands)		
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 602,648	\$ 643,013
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	419,007	414,992
Net gains on sale of real estate	(203,801)	(51,623)
Equity in net income of partially owned entities, including Toys "R" Us	(142,187)	(135,829)
Return of capital from Real Estate Fund investments	61,052	-
Distributions of income from partially owned entities	59,322	75,612
Straight-lining of rental income	(55,553)	(38,262)
Loss from the mark-to-market of J.C. Penney derivative position	53,343	27,136
Amortization of below-market leases, net	(39,693)	(49,988)
Other non-cash adjustments	39,360	20,261
Net unrealized gain on Real Estate Fund investments	(33,537)	(19,209)
Gain on sale of Canadian Trade Shows	(31,105)	-
Impairment losses	13,511	-
Net gain on disposition of wholly owned and partially owned assets	(4,856)	(7,975)
Net gain on extinguishment of debt	-	(83,907)
Mezzanine loans loss reversal and net gain on disposition	-	(82,744)
Changes in operating assets and liabilities:		
Real Estate Fund investments	(163,307)	(97,785)
Accounts receivable, net	(9,444)	11,292
Prepaid assets	(52,895)	(68,558)
Other assets	(43,103)	(44,617)
Accounts payable and accrued expenses	34,546	32,227
Other liabilities	7,338	22,635
Net cash provided by operating activities	510,646	566,671
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sales of real estate and related investments	408,856	135,762
Additions to real estate	(138,060)	(109,963)
Funding of J.C. Penney derivative collateral	(121,117)	(33,850)
Investments in partially owned entities	(116,264)	(440,865)
Development costs and construction in progress	(106,502)	(52,816)
Return of J.C. Penney derivative collateral	89,850	28,700



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Acquisitions of real estate and other	(73,069)	-
Restricted cash	(62,813)	121,463
Proceeds from sales of marketable securities	58,460	19,301
Proceeds from the sale of Canadian Trade Shows	52,504	-
Distributions of capital from partially owned entities	26,665	274,283
Proceeds from the repayment of loan to officer	13,123	-
Proceeds from sales and repayments of mezzanine loans and other	2,379	100,525
Investments in mezzanine loans receivable	-	(44,215)
Net cash provided by (used in) investing activities	34,012	(1,675)
See notes to consolidated financial statements (unaudited).		

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

	<b>For the Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>
<i>(Amounts in thousands)</i>		
<b>Cash Flows from Financing Activities:</b>		
Repayments of borrowings	\$ (2,070,295)	\$ (2,666,610)
Proceeds from borrowings	1,773,000	2,184,167
Dividends paid on common shares	(384,353)	(381,382)
Proceeds from the issuance of preferred shares	291,144	239,037
Purchases of outstanding preferred units and shares	(243,300)	(28,000)
Contributions from noncontrolling interests	120,746	109,605
Distributions to noncontrolling interests	(80,994)	(77,330)
Dividends paid on preferred shares	(54,034)	(43,675)
Repurchase of shares related to stock compensation agreements and/or related tax withholdings	(30,034)	(747)
Debt issuance and other costs	(17,417)	(28,614)
Proceeds received from exercise of employee share options	10,210	22,947
Net cash used in financing activities	(685,327)	(670,602)
Net decrease in cash and cash equivalents	(140,669)	(105,606)
Cash and cash equivalents at beginning of period	606,553	690,789
Cash and cash equivalents at end of period	\$ 465,884	\$ 585,183
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash payments for interest, excluding capitalized interest of \$7,884 and \$0	\$ 368,018	\$ 388,938
Cash payments for income taxes	\$ 19,222	\$ 10,299
<b>Non-Cash Investing and Financing Activities:</b>		
Change in unrealized net loss on securities available-for-sale	\$ (202,167)	\$ (120,334)
Adjustments to carry redeemable Class A units at redemption value	(63,657)	