

VORNADO REALTY TRUST
Form 10-Q
May 01, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 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 ended: **March 31, 2007**

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
(State or other jurisdiction of incorporation or organization)

888 Seventh Avenue, New York, New York
(Address of principal executive offices)

22-1657560
(I.R.S. Employer Identification Number)

10019
(Zip Code)

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(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 is a large accelerated filer, accelerated filer, or a non-accelerated filer.

See definitions of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

☒ Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer

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 March 31, 2007, 151,864,560 of the registrant's common shares of beneficial interest are outstanding.

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VORNADO REALTY TRUST**CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

(Amounts in thousands, except share and per share amounts)

	March 31, 2007	December 31, 2006
ASSETS		
Real estate, at cost:		
Land	\$ 3,343,729	\$ 2,795,970
Buildings and improvements	10,583,236	9,967,415
Development costs and construction in progress	466,634	417,671
Leasehold improvements and equipment	391,090	372,432
Total	14,784,689	13,553,488
Less accumulated depreciation and amortization	(2,056,118)	(1,968,678)
Real estate, net	12,728,571	11,584,810
Cash and cash equivalents	2,884,674	2,233,317
Escrow deposits and restricted cash	131,234	140,351
Marketable securities	369,073	316,727
Investments and advances to partially owned entities, including		
Alexander s of \$92,867 and \$82,114	1,242,111	1,135,669
Investment in Toys R Us	375,132	317,145
Due from officers	13,197	15,197
Accounts receivable, net of allowance for doubtful accounts of \$19,385 and \$17,727	233,414	230,908
Notes and mortgage loans receivable	659,612	561,164
Receivable arising from the straight-lining of rents, net of allowance of \$2,508 and \$2,334	462,368	441,982
Other assets	1,152,125	976,103
Assets related to discontinued operations	908	908
	\$ 20,252,419	\$ 17,954,281
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and mortgages payable	\$ 7,590,860	\$ 6,886,884
Convertible senior debentures	2,353,174	980,083
Senior unsecured notes	1,197,455	1,196,600
Exchangeable senior debentures	491,639	491,231
Accounts payable and accrued expenses	458,581	531,977
Deferred credit	596,465	342,733
Other liabilities	182,602	184,844
Officers' compensation payable	63,588	60,955
Total liabilities	12,934,364	10,675,307
Minority interest, including unitholders in the Operating Partnership	1,106,348	1,128,204
Commitments and contingencies		
Shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 33,985,777 and 34,051,635 shares	825,367	828,660
Common shares of beneficial interest: \$.04 par value per share; authorized, 200,000,000 shares; issued and outstanding 151,864,560 and 151,093,373 shares	6,115	6,083
Additional capital	5,323,944	5,287,923
Earnings less than distributions	(45,361)	(69,188)
Accumulated other comprehensive income	99,724	92,963
Deferred compensation shares earned but not yet delivered	1,918	4,329
Total shareholders' equity	6,211,707	6,150,770
	\$ 20,252,419	\$ 17,954,281

See notes to consolidated financial statements.

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	For The Three Months Ended	
	March 31,	
	2007	2006
(Amounts in thousands, except per share amounts)		
REVENUES:		
Property rentals	\$ 435,367	\$ 368,103
Temperature Controlled Logistics	200,093	195,850
Tenant expense reimbursements	72,533	61,727
Fee and other income	29,063	21,657
Total revenues	737,056	647,337
EXPENSES:		
Operating	370,966	331,915
Depreciation and amortization	108,806	90,305
General and administrative	53,063	45,864
Costs of acquisitions not consummated	8,807	
Total expenses	541,642	468,084
Operating income	195,414	179,253
Income (loss) applicable to Alexander's	13,519	(3,595)
Income applicable to Toys 'R Us	58,661	52,760
Income from partially owned entities	9,105	6,051
Interest and other investment income	54,479	22,475
Interest and debt expense (including amortization of deferred financing costs of \$4,150 and \$3,575)	(147,013)	(103,894)
Net gain on disposition of wholly-owned and partially owned assets other than depreciable real estate	909	548
Minority interest of partially owned entities	3,883	(274)
Income from continuing operations	188,957	153,324
(Loss) income from discontinued operations, net of minority interest	(31)	16,735
Income before allocation to minority limited partners	188,926	170,059
Minority limited partners' interest in the Operating Partnership	(17,177)	(15,874)
Perpetual preferred unit distributions of the Operating Partnership	(4,818)	(4,973)
Net income	166,931	149,212
Preferred share dividends	(14,296)	(14,407)
NET INCOME applicable to common shares	\$ 152,635	\$ 134,805
INCOME PER COMMON SHARE - BASIC:		
Income from continuing operations	\$ 1.01	\$ 0.84
Income from discontinued operations		0.12
Net income per common share	\$ 1.01	\$ 0.96
INCOME PER COMMON SHARE - DILUTED:		
Income from continuing operations	\$ 0.96	\$ 0.80
Income from discontinued operations		0.11
Net income per common share	\$ 0.96	\$ 0.91
DIVIDENDS PER COMMON SHARE	\$ 0.85	\$ 0.80

See notes to consolidated financial statements.

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For The Three Months Ended March 31,	
	2007	2006
(Amounts in thousands)		
Cash Flows from Operating Activities:		
Net income	\$ 166,931	\$ 149,212
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of debt issuance costs)	112,956	94,181
Equity in income of partially owned entities, including Alexander's and Toys	(81,285)	(55,216)
Straight-lining of rental income	(20,475)	(12,564)
Minority limited partners' interest in the Operating Partnership	17,174	15,874
Amortization of below market leases, net	(14,005)	(4,808)
Net gains from derivative positions	(9,380)	(3,953)
Costs of acquisitions not consummated	8,807	
Distributions of income from partially owned entities	6,902	8,286
Loss on early extinguishment of debt and write-off of unamortized financing costs	5,969	
Perpetual preferred unit distributions of the Operating Partnership	4,818	4,973
Minority interest of partially owned entities	(3,883)	274
Net gains on dispositions of wholly owned and partially owned assets other than depreciable real estate	(909)	(548)
Net gains on sale of real estate		(16,160)
Other non-cash adjustments	6,699	
Changes in operating assets and liabilities:		
Accounts receivable, net	(2,506)	48,530
Accounts payable and accrued expenses	(70,674)	(44,238)
Other assets	(46,913)	(5,935)
Other liabilities	1,037	12,561
Net cash provided by operating activities	81,263	190,469
Cash Flows from Investing Activities:		
Acquisitions of real estate and other	(878,654)	(148,330)
Investments in notes and mortgage loans receivable	(135,615)	(57,535)
Deposits in connection with real estate acquisitions, including pre-acquisition costs	(125,359)	327
Investments in partially owned entities	(91,037)	(22,879)
Development costs and construction in progress	(49,438)	(58,033)
Additions to real estate	(38,204)	(41,574)
Purchases of marketable securities	(43,685)	(46,475)
Proceeds received from repayment of notes and mortgage loans receivable	40,150	5,632
Cash restricted, including mortgage escrows	9,117	(11,050)
Distributions of capital from partially owned entities	2,812	2,542
Proceeds from sales of, and return of investment in, marketable securities	2,217	5,392
Proceeds received from Officer loan repayment	2,000	
Proceeds from sales of real estate		71,887
Proceeds received on settlement of derivatives (primarily Sears Holdings)		135,028
Net cash used in investing activities	(1,305,696)	(165,068)

See notes to consolidated financial statements.

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(UNAUDITED)

(Amounts in thousands)	For The Three Months	
	Ended March 31, 2007	2006
Cash Flows from Financing Activities:		
Proceeds from borrowings	2,286,725	605,298
Repayments of borrowings	(156,759)	(195,845)
Dividends paid on common shares	(128,812)	(113,024)
Purchase of marketable securities in connection with the legal		
defeasance of mortgage notes payable	(86,653)	
Distributions to minority partners	(19,429)	(17,725)
Dividends paid on preferred shares	(14,349)	(14,446)
Debt issuance costs	(6,768)	(7,542)
Proceeds from exercise of share options and other	1,835	3,309
Net cash provided by financing activities	1,875,790	260,025
Net increase in cash and cash equivalents	651,357	285,426
Cash and cash equivalents at beginning of period	2,233,317	294,504
Cash and cash equivalents at end of period	\$ 2,884,674	\$ 579,930

Supplemental Disclosure of Cash Flow Information:

Cash payments for interest (including capitalized interest of \$10,368 and \$3,698)	\$ 123,753	\$ 90,404
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Non-Cash Transactions:

Financing assumed in acquisitions	\$ 25,228	\$ 253,172
Marketable securities transferred in connection with the legal defeasance of mortgage notes payable	86,653	
Mortgage notes payable legally defeased	83,542	
Conversion of Class A Operating Partnership units to common shares	26,805	12,172
Unrealized net gain on securities available for sale	4,124	12,312

See notes to consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization

Vornado Realty Trust is a fully-integrated real estate investment trust (REIT) and conducts its business through Vornado Realty L.P., a Delaware limited partnership (the Operating Partnership). All references to our, we, us, the Company and Vornado refer to Vornado Realty Trust and its consolidated subsidiaries. We are the sole general partner of, and owned approximately 90.0% of the common limited partnership interest in, the Operating Partnership at March 31, 2007.

Substantially all of Vornado Realty Trust's assets are held through subsidiaries of the Operating Partnership. Accordingly, Vornado Realty Trust's cash flow and ability to pay dividends to its shareholders is dependent upon the cash flow of the Operating Partnership and the ability of its direct and indirect subsidiaries to first satisfy their obligations to creditors.

2. Basis of Presentation

The accompanying consolidated financial statements are unaudited. 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 have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006, as filed with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2007, are not necessarily indicative of the operating results for the full year.

The accompanying consolidated financial statements include the accounts of Vornado and its majority-owned subsidiaries, including the Operating Partnership, as well as certain partially owned entities in which we own more than 50% unless a partner has shared board and management representation and substantive participation rights on all significant business decisions, or 50% or less when (i) we are the primary beneficiary and the entity qualifies as a variable interest entity under Financial Accounting Standards Board (FASB) Interpretation No. 46 (Revised) *Consolidation of Variable Interest Entities* (FIN 46R), or (ii) when we are a general partner that meets the criteria under Emerging Issues Task Force (EITF) Issue No. 04-5. We consolidate our 47.6% investment in AmeriCold Realty Trust because we have the contractual right to appoint three out of five members of its Board of Trustees, and therefore determined that we have a controlling interest. All significant inter-company amounts have been eliminated. Equity interests in partially owned entities are accounted for under the equity method of accounting when they do not meet the criteria for consolidation and our ownership interest is greater than 20%. When partially owned investments are in partnership form, the 20% threshold for equity method accounting is generally reduced to 3% to 5%, based on our ability to influence the operating and financial policies of the partnership. Investments accounted for under the equity method are initially recorded at cost and subsequently adjusted for our share of the net income or loss and cash contributions and distributions to or from these entities. Investments in partially-owned entities that do not meet the criteria for consolidation or for equity method accounting are accounted for on the cost method.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Certain prior year balances related to discontinued operations have been reclassified in order to conform to current year presentation.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

3. Recently Issued Accounting Literature

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 provides guidance for using fair value to measure assets and liabilities. This statement clarifies the principle that fair value should be based on the assumptions that market participants would use when pricing the asset or liability. SFAS No. 157 establishes a fair value hierarchy, giving the highest priority to quoted prices in active markets and the lowest priority to unobservable data. SFAS No. 157 applies whenever other standards require assets or liabilities to be measured at fair value. This statement is effective in fiscal years beginning after November 15, 2007. We believe that the adoption of this standard on January 1, 2008 will not have a material effect on our consolidated financial statements.

In September 2006, the FASB issued Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of SFAS No. 87, 88, 106 and 132R* (SFAS No. 158). SFAS No. 158 requires an employer to (i) recognize in its statement of financial position an asset for a plan's over-funded status or a liability for a plan's under-funded status; (ii) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (iii) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income. The adoption of the requirement to recognize the funded status of a benefit plan and the disclosure requirements as of December 31, 2006 did not have a material effect on our consolidated financial statements. The requirement to measure plan assets and benefit obligations to determine the funded status as of the end of the fiscal year and to recognize changes in the funded status in the year in which the changes occur is effective for fiscal years ending after December 15, 2008. The adoption of the measurement date provisions of this standard is not expected to have a material effect on our consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (SFAS No. 159). SFAS No. 159 expands opportunities to use fair value measurement in financial reporting and permits entities to choose to measure many financial instruments and certain other items at fair value. This Statement is effective for fiscal years beginning after November 15, 2007. We have not decided if we will choose to measure any financial assets and liabilities at fair value when we adopt SFAS No. 159 as of January 1, 2008.

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 establishes new evaluation and measurement processes for all income tax positions taken. FIN 48 also requires expanded disclosures of income tax matters. The adoption of this standard on January 1, 2007 did not have a material effect on our consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Acquisitions

100 West 33rd Street, New York City (the Manhattan Mall)

On January 10, 2007, we acquired the Manhattan Mall for approximately \$689,000,000 in cash. This mixed-use property is located on the entire Sixth Avenue block-front between 32nd and 33rd Streets in Manhattan and contains approximately 1,000,000 square feet, including 812,000 square feet of office space and 164,000 square feet of retail space. Included as part of the transaction are 250,000 square feet of additional air rights. The property is adjacent to our 1,400,000 square foot Hotel Pennsylvania. At closing, we completed a \$232,000,000 financing secured by the property, which bears interest at LIBOR plus 0.55% (5.87% at March 31, 2007) and matures in two years with three one-year extension options. The operations of the office component of the property will be included in the New York Office segment and the operations of the retail component will be included in the Retail segment. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

Bruckner Plaza, Bronx, New York

On January 11, 2007, we acquired the Bruckner Plaza shopping center, and an adjacent parcel containing 114,000 square feet which is ground leased to a third party, for approximately \$165,000,000 in cash. The property is located on Bruckner Boulevard in the Bronx, New York and contains 386,000 square feet of retail space. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

Filene s, Boston, Massachusetts

On January 26, 2007, a joint venture in which we have a 50% interest, acquired the Filene s property located in the Downtown Crossing district of Boston, Massachusetts for approximately \$100,000,000 in cash, of which our share was \$50,000,000. This investment is accounted for under the equity method. The venture plans to redevelop the property to include over 1,200,000 square feet, consisting of office, retail, condominium apartments and a hotel. The project is subject to governmental approvals.

1290 Avenue of the Americas and 555 California Street

On March 16, 2007, we entered into an agreement to acquire a 70% controlling interest in 1290 Avenue of the Americas, a 2,000,000 square foot Manhattan office building, located on the block-front between 51st and 52nd Street on Avenue of the Americas, and the 555 California Street office complex containing 1,800,000 square feet, known as the Bank of America Center, located at California and Montgomery Streets in San Francisco s financial district. The purchase price for our 70% interest in the real estate is approximately \$1.807 billion, consisting of \$1.010 billion of cash and \$797,000,000 of existing debt. Our share of the debt is comprised of \$308,000,000 secured by 1290 Avenue of the Americas and \$489,000,000 secured by 555 California Street. The preliminary allocation of the purchase price is approximately \$775 per square foot for 1290 Avenue of the Americas and approximately \$575 per square foot for 555 California Street. Our 70% interest is being acquired through the purchase of all of the shares of a group of foreign companies that own, through U.S. entities, the 1% sole general partnership interest and a 69%

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limited partnership interest in the partnerships that own the two properties. The remaining 30% limited partnership interest is owned by Donald J. Trump. This acquisition is expected to close in the second quarter of 2007, subject to customary closing conditions.

In August 2005, Mr. Trump brought a lawsuit in the New York State Supreme Court against, among others, the general partners of the partnerships referred to above. Mr. Trump's claims arose out of a dispute over the sale price of, and use of proceeds from, the sale of properties located on the former Penn Central rail yards between West 59th and 72nd Streets in Manhattan which were formerly owned by the partnerships. In decisions dated September 14, 2005 and July 24, 2006, the Court denied various of Mr. Trump's motions and ultimately dismissed all of Mr. Trump's claims, except for his claim seeking access to books and records, which remains pending. Mr. Trump has sought re-argument and renewal on, and filed a notice of appeal in connection with, his dismissed claims. We have agreed that at closing we will indemnify the sellers for liabilities and expenses arising out of Mr. Trump's claim that the general partners of the partnerships we are acquiring did not sell the rail yards at a fair price or could have sold the rail yards for a greater price and any other claims asserted in the legal action; provided however, that if Mr. Trump prevails on certain claims involving partnership matters, other than claims relating to sale price, the sellers will be required to reimburse us for certain costs related to those claims.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Acquisitions - continued

H Street Building Corporation (H Street)

In July 2005, we acquired H Street, which owns a 50% interest in real estate assets located in Pentagon City, Virginia and Washington, DC. On April 30, 2007, we acquired the corporations that own the remaining 50% interest in these assets for approximately \$383,000,000, consisting of \$323,000,000 in cash and \$60,000,000 of existing mortgages. These assets include twin office buildings located in Washington, DC, containing 577,000 square feet, and assets located in Pentagon City, Virginia comprised of 34 acres of land leased to three residential and retail operators, a 1,670 unit high-rise apartment complex and 10 acres of vacant land. In conjunction with this acquisition all existing litigation has been dismissed. Further, we have agreed to sell approximately 19.6 of the 34 acres of land to the existing ground lessee in one or more closings over a two-year period for approximately \$220,000,000.

Our total purchase price for 100% of the assets we will own, after the anticipated proceeds from the land sale, is \$409,000,000, consisting of \$286,000,000 in cash and \$123,000,000 of existing mortgages.

Within the last two weeks we have received letters from the two remaining ground lessees claiming a right of first offer.

Beginning on April 30, 2007, we will consolidate the accounts of these entities into our consolidated financial statements and no longer account for them on the equity method.

5. Derivative Instruments and Related Marketable Securities

Investment in McDonald s Corporation (McDonalds) (NYSE: MCD)

As of March 31, 2007, we own 858,000 common shares of McDonalds which we acquired in July 2005 for \$25,346,000, an average price of \$29.54 per share. These shares are recorded as marketable equity securities on our consolidated balance sheets and are classified as available for sale. Appreciation or depreciation in the fair market value of these shares is recorded as an increase or decrease in accumulated other comprehensive income in the shareholders equity section of our consolidated balance sheet and not recognized in income. At March 31, 2007, based on McDonalds closing stock price of \$45.05 per share, \$13,306,000 of appreciation in the value of these shares was included in accumulated other comprehensive income on our consolidated balance sheet.

As of March 31, 2007, we own 13,696,000 McDonalds common shares (option shares) through a series of privately negotiated transactions with a financial institution pursuant to which we purchased a call option and simultaneously sold a put option at the same strike price on McDonalds

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common shares. The option shares have a weighted-average strike price of \$32.70 per share, or an aggregate of \$447,822,000, expire on various dates between July 30, 2007 and September 10, 2007 and provide for net cash settlement. Under these agreements, the strike price for each pair of options increases at an annual rate of LIBOR plus 45 basis points (up to 95 basis points under certain circumstances) and is credited for the dividends received on the shares. The options provide us with the same economic gain or loss as if we had purchased the underlying common shares and borrowed the aggregate purchase price at an annual rate of LIBOR plus 45 basis points. Because these options are derivatives and do not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the options at the end of each reporting period are recognized as an increase or decrease in interest and other investment income on our consolidated statements of income.

For the three months ended March 31, 2007 and 2006, we recognized net gains of \$3,223,000, and \$2,546,000, respectively, representing the mark-to-market of the option shares to \$45.05 and \$34.36 per share, respectively, net of the expense resulting from the LIBOR charges.

Our aggregate net gain from inception of this investment in 2005 through March 31, 2007 is \$172,397,000.

VORNADO REALTY TRUST**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****6. Investments in Partially Owned Entities***Toys R Us (Toys)*

As of March 31, 2007, we own 32.9% of Toys. Below is a summary of Toys' latest available financial information.

(in thousands)		
Balance Sheet:	As of February 3, 2007	As of January 28, 2006
Total Assets	\$ 11,790,000	\$ 11,655,000
Total Liabilities	\$ 10,637,000	\$ 10,347,000
Total Equity	\$ 1,153,000	\$ 1,308,000
Income Statement:	For the Three Months Ended February 3, 2007	For the Three Months Ended January 28, 2006
Total Revenues	\$ 5,679,000	\$ 4,886,000
Net Income	\$ 172,900	\$ 150,000

The Lexington Master Limited Partnership (Lexington MLP)

On December 31, 2006, Newkirk Realty Trust (NYSE: NKT) was acquired in a merger by Lexington Corporate Properties Trust (Lexington) (NYSE: LXP), a real estate investment trust. We owned 10,186,991 limited partnership units (representing a 15.8% investment ownership interest) of Newkirk MLP, which was also acquired by Lexington as a subsidiary, and was renamed Lexington MLP. The units in Newkirk MLP, which we accounted for on the equity method, were converted on a 0.80 for 1 basis into limited partnership units of Lexington MLP, which we also account for on the equity method. The Lexington MLP units are exchangeable on a one-for-one basis into common shares of Lexington. We will record our pro rata share of Lexington MLP's net income or loss on a one-quarter lag basis because we file our consolidated financial statements on Form 10-K and 10-Q prior to the time that Lexington files its financial statements. Accordingly, our equity in net income or loss from partially owned entities for the three months ended March 31, 2007 does not include our share of Lexington MLP's net income or loss for its first quarter ended March 31, 2007.

As of March 31, 2007, the market value of our investment in Lexington MLP was \$172,201,000, based on Lexington's March 30, 2007 closing share price of \$21.13.

GMH Communities L.P. (GMH)

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As of March 31, 2007, we own 7,337,857 limited partnership units (which are exchangeable on a one-for-one basis into common shares of GMH Communities Trust (GCT) (NYSE: GCT), a real estate investment trust that conducts its business through GMH and of which it is the sole general partner, and 2,517,247 common shares of GCT (1,817,247 shares were received upon exercise of our warrants discussed below), or 13.5% of the limited partnership interest of GMH. We account for our investment in GMH on the equity method and record our pro rata share of GMH's net income or loss on a one-quarter lag basis as we file our consolidated financial statements on Form 10-K and 10-Q prior to the time that GCT files its financial statements.

As of March 31, 2007, the market value of our investment in GMH and GCT was \$98,452,000, based on GCT's March 30, 2007 closing share price of \$9.99.

Alexander's (NYSE: ALX):

As of March 31, 2007, we own 32.8% of the outstanding common stock of Alexander's. We manage, lease and develop Alexander's properties pursuant to agreements, which expire in March of each year and are automatically renewable. As of March 31, 2007, Alexander's owed us \$36,311,000 for fees under these agreements.

As of March 31, 2007, the market value of our investment in Alexander's was \$680,980,000, based on Alexander's March 30, 2007 closing share price of \$411.70.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Investments in Partially Owned Entities - continued

The carrying amount of our investments in partially owned entities and income (loss) recognized from such investments are as follows:

Investments:	As of	As of
(Amounts in thousands)	March 31, 2007	December 31, 2006
	2007	2006
Toys	\$ 375,132	\$ 317,145
H Street non-consolidated subsidiaries (see page 10)	\$ 210,188	\$ 207,353
Lexington MLP, formerly Newkirk MLP	184,961	184,961
Partially Owned Office Buildings (1)	163,679	150,954
GMH	101,363	103,302
India Real Estate Ventures	95,271	93,716
Alexander s	92,867	82,114
Beverly Connection Joint Venture (Beverly Connection)	84,193	82,101