

VORNADO REALTY TRUST
Form 10-Q
August 05, 2008

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 ended: **June 30, 2008**

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, an accelerated filer, a non-accelerated filer or a smaller reporting company. See 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 June 30, 2008, 153,889,331 of the registrant's common shares of beneficial interest are outstanding.

PART I.

Financial Information:

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VORNADO REALTY TRUST

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

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

	June 30, 2008	December 31, 2007
ASSETS		
Real estate, at cost:		
Land	\$ 4,417,348	\$ 4,576,479
Buildings and improvements	11,720,752	11,523,977
Development costs and construction in progress	1,087,294	821,991
Leasehold improvements and equipment	109,711	106,060
Total	17,335,105	17,028,507
Less accumulated depreciation and amortization	(1,969,257)	(1,802,055)
Real estate, net	15,365,848	15,226,452
Cash and cash equivalents	1,712,032	1,154,595
Escrow deposits and restricted cash	384,019	378,732
Marketable securities	275,629	322,992
Accounts receivable, net of allowance for doubtful accounts of \$23,181 and \$19,151	163,190	168,183
Investments in partially owned entities, including Alexander's of \$140,400 and \$122,797	1,079,359	1,206,742
Investment in Toys 'R Us	343,116	298,089
Mezzanine loans receivable	466,674	492,339
Receivable arising from the straight-lining of rents, net of allowance of \$3,403 and \$3,076	551,792	513,137
Deferred leasing and financing costs, net of accumulated amortization of \$146,760 and \$123,624	303,132	273,958
Assets related to discontinued operations	112,164	1,632,318
Due from officers	13,185	13,228
Other assets	731,433	798,170
	\$ 21,501,573	\$ 22,478,935
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and mortgages payable	\$ 8,661,452	\$ 7,938,457
Convertible senior debentures	2,365,237	2,360,412
Senior unsecured notes	698,964	698,656
Exchangeable senior debentures	493,679	492,857
Revolving credit facility debt		405,656
Accounts payable and accrued expenses	515,863	480,123
Deferred credit	780,225	848,852
Officers' deferred compensation plan	81,824	67,714
Deferred tax liabilities	19,698	241,895
Other liabilities	151,767	118,983
Liabilities related to discontinued operations	750	1,332,630
Total liabilities	13,769,459	14,986,235
Minority interest, including unitholders in the Operating Partnership	1,383,350	1,374,301
Commitments and contingencies		
Shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 33,958,724 and 33,980,362 shares	824,013	825,095
Common shares of beneficial interest: \$.04 par value per share; authorized, 250,000,000 shares; issued and outstanding 153,889,331 and 153,076,606 shares	6,216	6,140
Additional capital	5,382,214	5,339,570
Earnings in excess of (less than) distributions	164,652	(82,178)
Accumulated other comprehensive (loss) income	(28,331)	29,772
Total shareholders' equity	6,348,764	6,118,399
	\$ 21,501,573	\$ 22,478,935

See notes to consolidated financial statements (unaudited).

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VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	For The Three		For The Six	
	Months Ended June 30,		Months Ended June 30,	
	2008	2007	2008	2007
(Amounts in thousands, except per share amounts)				
REVENUES:				
Property rentals	\$ 558,855	\$ 481,131	\$ 1,092,289	\$ 912,739
Tenant expense reimbursements	84,898	77,267	172,058	149,690
Fee and other income	30,612	24,822	59,300	53,843
Total revenues	674,365	583,220	1,323,647	1,116,272
EXPENSES:				
Operating	256,358	227,212	517,609	438,961
Depreciation and amortization	130,948	110,768	261,558	198,921
General and administrative	50,285	49,789	99,670	90,203
Costs of acquisitions not consummated	726		3,009	8,807
Total expenses	438,317	387,769	881,846	736,892
Operating income	236,048	195,451	441,801	379,380
Income applicable to Alexander's	15,351	9,484	23,280	23,003
(Loss) income applicable to Toys 'R Us	(30,711)	(20,029)	49,651	38,632
Income (loss) from partially owned entities	4,285	8,195	(26,068)	16,890
Interest and other investment income	23,793	119,689	37,897	173,193
Interest and debt expense (including amortization of deferred financing costs of \$4,681 and \$3,676 in each three-month period, respectively, and \$8,924 and \$7,514 in each six-month period, respectively)	(150,316)	(140,293)	(298,495)	(270,991)
Net gains on disposition of wholly owned and partially owned assets other than depreciable real estate	3,386	15,778	3,386	16,687
Minority interest of partially owned entities	1,837	1,346	2,243	1,696
Income before income taxes	103,673	189,621	233,695	378,490
Income tax (expense) benefit	(4,915)	(2,508)	212,414	(2,597)
Income from continuing operations	98,758	187,113	446,109	375,893
Income from discontinued operations, net of minority interest	53,005	478	154,340	624
Income before allocation to minority limited partners	151,763	187,591	600,449	376,517
Minority limited partners' interest in the Operating Partnership	(7,285)	(16,852)	(38,955)	(34,029)
Perpetual preferred unit distributions of the Operating Partnership	(4,818)	(4,819)	(9,637)	(9,637)
Net income	139,660	165,920	551,857	332,851
Preferred share dividends	(14,274)	(14,295)	(28,549)	(28,591)
NET INCOME applicable to common shares	\$ 125,386	\$ 151,625	\$ 523,308	\$ 304,260
INCOME PER COMMON SHARE BASIC:				
Income from continuing operations	\$ 0.48	\$ 1.00	\$ 2.40	\$ 2.01
Income from discontinued operations	0.34		1.01	
Net income per common share	\$ 0.82	\$ 1.00	\$ 3.41	\$ 2.01
INCOME PER COMMON SHARE DILUTED:				
Income from continuing operations	\$ 0.46	\$ 0.96	\$ 2.32	\$ 1.92
Income from discontinued operations	0.33		0.94	
Net income per common share	\$ 0.79	\$ 0.96	\$ 3.26	\$ 1.92
DIVIDENDS PER COMMON SHARE	\$ 0.90	\$ 0.85	\$ 1.80	\$ 1.70

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	For The Six Months Ended	
	June 30,	
	2008	2007
(Amounts in thousands)		
Cash Flows from Operating Activities:		
Net income	\$ 551,857	\$ 332,851
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of debt issuance costs)	291,689	249,259
Write-off of deferred tax liability	(222,174)	
Net gain on sale of Americold	(112,690)	
Equity in income of partially owned entities, including Alexander's and Toys	(81,431)	(79,333)
Net gains on sale of real estate	(57,411)	
Minority limited partners' interest in the Operating Partnership	55,035	34,022
Amortization of below market leases, net	(49,129)	(34,322)
Straight-lining of rental income	(40,710)	(42,128)
Write-off of pre-development costs	34,200	
Net losses (gains) from derivative positions	21,830	(81,454)
Distributions of income from partially owned entities	20,051	11,767
Other non-cash adjustments	15,994	10,481
Perpetual preferred unit distributions of the Operating Partnership	9,637	9,637
Marketable equity security impairment loss	9,073	
Minority interest of partially owned entities	(5,818)	(8,232)
Net gains on dispositions of wholly owned and partially owned assets other than depreciable real estate	(3,386)	(16,687)
Write-off for costs of acquisitions not consummated	3,009	8,707
Loss on early extinguishment of debt and write-off of unamortized financing costs		5,969
Changes in operating assets and liabilities:		
Accounts receivable, net	7,029	4,744
Other assets	(17,542)	(31,288)
Accounts payable and accrued expenses	10,304	(78,829)
Other liabilities	14,099	4,274
Net cash provided by operating activities	453,516	299,438
Cash Flows from Investing Activities:		
Proceeds from sales of real estate and real estate related investments	350,591	
Development costs and construction in progress	(253,159)	(140,253)
Distributions of capital from partially owned entities	140,069	8,997
Investments in partially owned entities	(96,277)	(166,611)
Additions to real estate	(97,804)	(76,164)
Proceeds received from repayment of notes and mortgage loans receivable	50,951	113,291
Acquisitions of real estate and other	(32,484)	(2,585,928)
Deposits in connection with real estate acquisitions, including pre-acquisition costs	(9,185)	(20,691)
Proceeds from sales of, and return of investment in, marketable securities	8,338	36,253
Investments in notes and mortgage loans receivable	(7,397)	(204,914)
Cash restricted, including mortgage escrows	(16,340)	18,473
Purchases of marketable securities	(2,140)	(151,024)
Proceeds received from Officer loan repayment		2,000
Net cash provided by (used in) investing activities	35,163	(3,166,571)

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(UNAUDITED)

(Amounts in thousands)	For The Six Months	
	2008	2007
Cash Flows from Financing Activities:		
Proceeds from borrowings	1,215,500	2,510,217
Repayments of borrowings	(793,599)	(714,873)
Dividends paid on common shares	(276,478)	(257,943)
Distributions to minority partners	(47,083)	(41,929)
Dividends paid on preferred shares	(28,567)	(28,645)
Debt issuance costs	(13,155)	(8,156)
Proceeds from exercise of share options and other	12,140	5,304
Purchase of marketable securities in connection with the defeasance of mortgage notes payable		(86,653)
Net cash provided by financing activities	68,758	1,377,322
Net increase (decrease) in cash and cash equivalents	557,437	(1,489,811)
Cash and cash equivalents at beginning of period	1,154,595	2,233,317
Cash and cash equivalents at end of period	\$ 1,712,032	\$ 743,506
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest (including capitalized interest of \$31,817 and \$22,640)	\$ 316,642	\$ 289,832
Cash payments for income taxes	\$ 4,078	\$ 3,402
Non-Cash Transactions:		
Financing assumed in acquisitions	\$	\$ 1,296,398
Marketable securities transferred in connection with the defeasance of mortgage notes payable		86,653
Mortgage notes payable defeased		83,542
Conversion of Class A Operating Partnership units to common shares	23,819	30,885
Unrealized net loss on securities available for sale	(33,737)	(26,970)
Operating partnership units issued in connection with acquisitions		22,382
Increases in assets and liabilities resulting from the consolidation of our 50% investment in H Street partially owned entities upon acquisition of the remaining 50% interest on April 30, 2007:		
Real estate, net		342,764
Restricted cash		369
Other assets		11,648
Notes and mortgages payable		55,272
Accounts payable and accrued expenses		3,101
Deferred credit		2,407
Deferred tax liabilities		112,797
Other liabilities		