

VORNADO REALTY TRUST
Form 10-Q
November 03, 2011

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, 2011**
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, 2011, 184,496,038 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)	September 30, 2011	December 31, 2010
ASSETS		
Real estate, at cost:		
Land	\$ 4,524,930	\$ 4,535,042
Buildings and improvements	12,573,880	12,510,244
Development costs and construction in progress	225,098	217,505
Leasehold improvements and equipment	127,294	124,910
Total	17,451,202	17,387,701
Less accumulated depreciation and amortization	(2,975,075)	(2,715,046)
Real estate, net	14,476,127	14,672,655
Cash and cash equivalents	585,183	690,789
Restricted cash	124,984	200,822
Marketable securities	631,361	766,116
Accounts receivable, net of allowance for doubtful accounts of \$76,935 and \$62,979	145,854	157,146
Investments in partially owned entities	1,157,326	927,672
Investment in Toys "R" Us	546,258	447,334
Real Estate Fund investments	261,417	144,423
Mezzanine loans receivable, net	156,365	202,412
Receivable arising from the straight-lining of rents, net of allowance of \$8,973 and \$7,316	724,483	695,486
Deferred leasing and financing costs, net of accumulated amortization of \$236,859 and \$219,965	360,056	354,864
Identified intangible assets, net of accumulated amortization of \$356,118 and \$335,113	334,878	346,157
Assets related to discontinued operations	253,352	519,285
Due from officers	13,185	13,187
Other assets	417,399	379,123
	\$ 20,188,228	\$ 20,517,471
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Notes and mortgages payable	\$ 8,462,191	\$ 8,255,101
Senior unsecured notes	959,421	1,082,928
Exchangeable senior debentures	496,139	491,000
Convertible senior debentures	188,799	186,413
Revolving credit facility debt	300,000	874,000
Accounts payable and accrued expenses	469,024	438,479
Deferred credit	532,221	575,836

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Deferred compensation plan	94,623	91,549
Deferred tax liabilities	13,814	13,278
Liabilities related to discontinued operations	8,954	267,652
Other liabilities	139,353	82,856
Total liabilities	11,664,539	12,359,092
Commitments and contingencies		
Redeemable noncontrolling interests:		
Class A units - 12,526,395 and 12,804,202 units outstanding	934,720	1,066,974
Series D cumulative redeemable preferred units - 9,000,001 and 10,400,001 units outstanding	226,000	261,000
Total redeemable noncontrolling interests	1,160,720	1,327,974
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 42,186,709 and 32,340,009 shares	1,021,855	783,088
Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 184,496,038 and 183,661,875 shares	7,350	7,317
Additional capital	7,112,004	6,932,728
Earnings less than distributions	(1,330,405)	(1,480,876)
Accumulated other comprehensive (loss) income	(59,019)	73,453
Total Vornado shareholders' equity	6,751,785	6,315,710
Noncontrolling interests in consolidated subsidiaries	611,184	514,695
Total equity	7,362,969	6,830,405
	\$ 20,188,228	\$ 20,517,471

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Amounts in thousands, except per share amounts)	2011	2010	2011	2010
REVENUES:				
Property rentals	\$ 561,149	\$ 559,518	\$1,688,551	\$1,661,967
Tenant expense reimbursements	94,053	95,341	264,857	271,040
Cleveland Medical Mart development project	35,135	-	108,203	-
Fee and other income	37,006	32,266	112,239	104,838
Total revenues	727,343	687,125	2,173,850	2,037,845
EXPENSES:				
Operating	285,659	275,077	841,266	802,927
Depreciation and amortization	134,074	130,599	393,846	393,259
General and administrative	46,452	55,200	155,566	153,231
Cleveland Medical Mart development project	33,419	-	101,637	-
Tenant buy-outs and other acquisition related costs	2,288	921	22,455	2,851
Total expenses	501,892	461,797	1,514,770	1,352,268
Operating income	225,451	225,328	659,080	685,577
(Loss) income applicable to Toys "R" Us	(9,304)	(2,557)	80,794	102,309
Income (loss) from partially owned entities	13,552	(1,996)	56,239	13,800
Income (loss) from Real Estate Fund (of which \$3,675 and (\$1,091) is attributable to noncontrolling interests, in each three-month period, respectively, and \$15,703 and (\$1,091) in each nine-month period, respectively)	5,353	(1,410)	25,491	(1,410)
Interest and other investment (loss) income, net	(29,994)	47,096	95,121	65,676
Interest and debt expense (including amortization of deferred financing costs of \$4,828 and \$5,170 in each three-month period, respectively, and \$14,696 and \$14,085 in each nine-month period, respectively)	(136,672)	(145,561)	(408,532)	(423,354)
Net (loss) on extinguishment of debt	-	(724)	-	(1,796)
Net gain on disposition of wholly owned and partially owned assets	1,298	5,072	7,975	12,759
Income before income taxes	69,684	125,248	516,168	453,561
Income tax expense	(7,144)	(5,449)	(19,448)	(15,993)

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Income from continuing operations	62,540	119,799	496,720	437,568
Income (loss) from discontinued operations	3,683	(3,667)	146,293	(11,681)
Net income	66,223	116,132	643,013	425,887
Less:				
Net income attributable to noncontrolling interests in consolidated subsidiaries	(5,636)	(296)	(20,643)	(1,490)
Net income attributable to noncontrolling interests in the Operating Partnership, including unit distributions	(6,825)	(11,584)	(47,364)	(33,487)
Net income attributable to Vornado	53,762	104,252	575,006	390,910
Preferred share dividends	(17,627)	(13,442)	(47,743)	(41,975)
Discount on preferred share and unit redemptions	5,000	4,382	5,000	4,382
NET INCOME attributable to common shareholders	\$ 41,135	\$ 95,192	\$ 532,263	\$ 353,317
INCOME PER COMMON SHARE - BASIC:				
Income from continuing operations, net	\$ 0.20	\$ 0.54	\$ 2.14	\$ 2.00
Income (loss) from discontinued operations, net	0.02	(0.02)	0.75	(0.06)
Net income per common share	\$ 0.22	\$ 0.52	\$ 2.89	\$ 1.94
Weighted average shares	184,398	182,462	184,220	182,014
INCOME PER COMMON SHARE - DILUTED:				
Income from continuing operations, net	\$ 0.20	\$ 0.54	\$ 2.12	\$ 1.98
Income (loss) from discontinued operations, net	0.02	(0.02)	0.74	(0.06)
Net income per common share	\$ 0.22	\$ 0.52	\$ 2.86	\$ 1.92
Weighted average shares	186,065	184,168	186,039	183,826
DIVIDENDS PER COMMON SHARE	\$ 0.69	\$ 0.65	\$ 2.07	\$ 1.95

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 66,223	\$ 116,132	\$ 643,013	\$ 425,887
Other comprehensive (loss) income:				
Change in unrealized net (loss) gain on securities available-for-sale	(161,178)	8,966	(120,334)	34,497
Pro rata share of other comprehensive income (loss) of nonconsolidated subsidiaries	112	3,885	26,477	(12,080)
Change in value of interest rate swap	(24,424)	-	(42,458)	-
Other	(69)	(5,176)	(5,114)	(5,594)
Comprehensive (loss) income	(119,336)	123,807	501,584	442,710
Less:				
Comprehensive income attributable to noncontrolling interests	(400)	(12,414)	(59,050)	(36,148)
Comprehensive (loss) income attributable to Vornado	\$ (119,736)	\$ 111,393	\$ 442,534	\$ 406,562

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
Balance, December 31, 2009	33,952	\$823,686	181,214	\$7,218	\$6,961,007	\$(1,577,591)	\$ 28,449	\$406,637	\$6,649,406
Net income	-	-	-	-	-	390,910	-	1,490	392,400
Dividends on common shares	-	-	-	-	-	(354,937)	-	-	(354,937)
Dividends on preferred shares	-	-	-	-	-	(42,100)	-	-	(42,100)
Redemption of preferred shares	(1,600)	(39,982)	-	-	-	4,382	-	-	(35,600)
Common shares issued:									
Upon redemption of Class A units, at redemption value	-	-	822	33	62,573	-	-	-	62,606
Under employees' share option plan	-	-	596	24	10,922	(25,583)	-	-	(14,637)
Under dividend reinvestment plan	-	-	17	1	1,231	-	-	-	1,232
Contributions:									
Real Estate Fund	-	-	-	-	-	-	-	37,698	37,698
Other	-	-	-	-	-	-	-	188	188
Conversion of Series A preferred shares to common	(3)	(177)	5	-	177	-	-	-	-

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shares									
Deferred compensation shares and options	-	-	17	1	6,155	-	-	-	6,156
Change in unrealized net gain on securities available-for-sale	-	-	-	-	-	-	34,497	-	34,497
Pro rata share of other comprehensive (loss) of nonconsolidated subsidiaries	-	-	-	-	-	-	(12,080)	-	(12,080)
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(232,099)	-	-	-	(232,099)
Other	-	-	-	-	(61)	30	(5,594)	670	(4,955)
Balance, September 30, 2010	32,349	\$783,527	182,671	\$7,277	\$6,809,905	\$(1,604,889)	\$ 45,272	\$446,683	\$6,487,775

Accumulated

(Amounts in thousands)

	Preferred Shares		Common Shares		Additional	Earnings Less Than	Other Comprehensive	Non-controlling	Total
	Shares	Amount	Shares	Amount	Capital	Distributions	Income (Loss)	Interests	Equity
Balance, December 31, 2010	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:									

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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)
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 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	-	-	-	-	114,628	-	-	-	114,628

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Class A units at redemption value									
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	8,957	-	8,957
Other	-	(105)	-	-	(4,518)	5,149	(5,114)	4,558	(30)
Balance, September 30, 2011	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 STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Nine Months Ended	
	September 30,	
	2011	2010
(Amounts in thousands)		
Cash Flows from Operating Activities:		
Net income	\$ 643,013	\$ 425,887
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of deferred financing costs)	414,992	419,638
Equity in net income of partially owned entities, including Toys "R" Us	(137,033)	(116,109)
Net (gain) loss on extinguishment of debt	(83,907)	1,796
Mezzanine loans loss (reversal) accrual and net gain on disposition	(82,744)	6,900
Distributions of income from partially owned entities	75,612	36,829
Net gain on sales of real estate	(51,623)	-
Amortization of below-market leases, net	(49,988)	(49,144)
Straight-lining of rental income	(38,262)	(55,581)
Loss (income) from the mark-to-market of J.C. Penney derivative position	27,136	(32,249)
Other non-cash adjustments	20,261	36,058
Unrealized gain on Real Estate Fund assets	(19,209)	-
Net gain on disposition of wholly owned and partially owned assets	(7,975)	(12,759)
Litigation loss accrual and impairment losses	-	15,197
Changes in operating assets and liabilities:		
Real Estate Fund investments	(97,785)	(62,500)
Accounts receivable, net	11,292	(6,468)
Prepaid assets	(68,558)	(45,104)
Other assets	(43,413)	(59,614)
Accounts payable and accrued expenses	32,227	78,153
Other liabilities	22,635	13,791
Net cash provided by operating activities	566,671	594,721
Cash Flows from Investing Activities:		
Investments in partially owned entities	(440,865)	(159,053)
Distributions of capital from partially owned entities	274,283	45,613
Proceeds from sales of real estate and related investments	135,762	48,998
Restricted cash	121,463	125,204
Additions to real estate	(109,963)	(98,789)
Proceeds from sales and repayments of mezzanine loans	100,525	109,594
Development costs and construction in progress	(52,816)	(86,871)
Investments in mezzanine loans receivable and other	(44,215)	(75,697)

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Funding of collateral for J.C. Penney derivative	(33,850)	-
Return of derivative collateral	28,700	-
Proceeds from sales of marketable securities	19,301	126,015
Proceeds from maturing short-term investments	-	40,000
Purchases of marketable securities	-	(13,917)
Acquisitions of real estate and other	-	(10,000)
Net cash (used in) provided by investing activities	(1,675)	51,097

See notes to consolidated financial statements (unaudited).

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

	For the Nine Months Ended	
	September 30,	
	2011	2010
<i>(Amounts in thousands)</i>		
Cash Flows from Financing Activities:		
Repayments of borrowings	\$ (2,666,610)	\$ (1,462,652)
Proceeds from borrowings	2,184,167	1,603,359
Dividends paid on common shares	(381,382)	(354,937)
Proceeds from the issuance of Series J preferred shares	239,037	-
Contributions from noncontrolling interests	109,605	39,351
Distributions to noncontrolling interests	(77,330)	(41,055)
Dividends paid on preferred shares	(43,675)	(42,100)
Debt issuance and other costs	(28,614)	(14,942)
Purchases of outstanding preferred units and shares	(28,000)	(48,600)
Proceeds received from exercise of employee share options	22,947	12,192
Repurchase of shares related to stock compensation agreements and related tax withholdings	(747)	(25,659)
Net cash used in financing activities	(670,602)	(335,043)
Net (decrease) increase in cash and cash equivalents	(105,606)	310,775
Cash and cash equivalents at beginning of period	690,789	535,479
Cash and cash equivalents at end of period	\$ 585,183	\$ 846,254
Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest (including capitalized interest of \$0 and \$875)	\$ 388,938	\$ 409,953
Cash payments for income taxes	\$ 10,299	\$ 5,348
Non-Cash Investing and Financing Activities:		