

VORNADO REALTY TRUST
Form 10-Q
August 04, 2014

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 **June 30, 2014**
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 June 30, 2014, 187,664,768 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)	June 30, 2014	December 31, 2013
ASSETS		
Real estate, at cost:		
Land	\$ 4,051,053	\$ 4,068,306
Buildings and improvements	12,519,973	12,475,556
Development costs and construction in progress	1,550,084	1,353,121
Leasehold improvements and equipment	132,485	132,483
Total	18,253,595	18,029,466
Less accumulated depreciation and amortization	(3,527,372)	(3,381,457)
Real estate, net	14,726,223	14,648,009
Cash and cash equivalents	1,371,226	583,290
Restricted cash	160,353	262,440
Marketable securities	206,917	191,917
Tenant and other receivables, net of allowance for doubtful accounts of \$21,521 and \$21,869	118,217	115,862
Investments in partially owned entities	1,267,370	1,166,443
Investment in Toys "R" Us	26,309	83,224
Real Estate Fund investments	549,091	667,710
Mortgage and mezzanine loans receivable, net of allowance of \$5,811 and \$5,845	17,417	170,972
Receivable arising from the straight-lining of rents, net of allowance of \$3,375 and \$4,355	850,278	817,357
Deferred leasing and financing costs, net of accumulated amortization of \$286,668 and \$264,451	467,455	411,927
Identified intangible assets, net of accumulated amortization of \$233,449 and \$277,998	289,475	311,963
Assets related to discontinued operations	208,309	314,622
Other assets	478,139	351,488
	\$ 20,736,779	\$ 20,097,224
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Mortgages payable	\$ 8,988,843	\$ 8,331,993
Senior unsecured notes	1,791,814	1,350,855
Revolving credit facility debt	88,138	295,870
Accounts payable and accrued expenses	452,641	422,276
Deferred revenue	501,384	529,048
Deferred compensation plan	111,858	116,515
Liabilities related to discontinued operations	-	13,950
Other liabilities	382,789	438,353

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Total liabilities	12,317,467	11,498,860
Commitments and contingencies		
Redeemable noncontrolling interests:		
Class A units - 11,430,318 and 11,292,038 units outstanding	1,219,958	1,002,620
Series D cumulative redeemable preferred unit - 1 unit outstanding	1,000	1,000
Total redeemable noncontrolling interests	1,220,958	1,003,620
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,678,939 and 52,682,807 shares	1,277,026	1,277,225
Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 187,664,768 and 187,284,688 shares	7,484	7,469
Additional capital	6,949,663	7,143,840
Earnings less than distributions	(1,872,250)	(1,734,839)
Accumulated other comprehensive income	92,221	71,537
Total Vornado shareholders' equity	6,454,144	6,765,232
Noncontrolling interests in consolidated subsidiaries	744,210	829,512
Total equity	7,198,354	7,594,744
	\$ 20,736,779	\$ 20,097,224

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the Three		For the Six	
	Months Ended June 30,		Months Ended June 30,	
(Amounts in thousands, except per share amounts)	2014	2013	2014	2013
REVENUES:				
Property rentals	\$ 540,124	\$ 534,074	\$ 1,068,224	\$ 1,067,867
Tenant expense reimbursements	76,202	72,291	162,792	148,255
Cleveland Medical Mart development project	-	16,990	-	29,133
Fee and other income	50,280	47,861	96,208	144,674
Total revenues	666,606	671,216	1,327,224	1,389,929
EXPENSES:				
Operating	261,453	259,168	534,844	524,915
Depreciation and amortization	129,025	133,180	276,676	272,497
General and administrative	44,568	50,305	96,726	101,685
Cleveland Medical Mart development project	-	15,151	-	26,525
Impairment losses, acquisition and transaction related costs	4,083	3,350	25,867	3,951
Total expenses	439,129	461,154	934,113	929,573
Operating income	227,477	210,062	393,111	460,356
(Loss) applicable to Toys "R" Us	(57,591)	(36,861)	(55,744)	(35,102)
Income from partially owned entities	3,849	1,472	3,981	22,238
Income from Real Estate Fund	100,110	34,470	118,258	51,034
Interest and other investment income (loss), net	9,435	26,415	21,328	(22,660)
Interest and debt expense	(117,051)	(120,657)	(226,493)	(241,003)
Net gain (loss) on disposition of wholly owned and partially owned assets	905	1,005	10,540	(35,719)
Income before income taxes	167,134	115,906	264,981	199,144
Income tax expense	(3,599)	(2,877)	(5,181)	(3,950)
Income from continuing operations	163,535	113,029	259,800	195,194
Income from discontinued operations	2,152	69,292	4,043	276,054
Net income	165,687	182,321	263,843	471,248
Less net income attributable to noncontrolling interests in:				
Consolidated subsidiaries	(63,975)	(14,930)	(75,554)	(26,216)
Operating Partnership	(4,691)	(8,849)	(8,539)	(22,782)
Preferred unit distributions of the Operating Partnership	(13)	(348)	(25)	(1,134)
Net income attributable to Vornado	97,008	158,194	179,725	421,116
Preferred share dividends	(20,366)	(20,368)	(40,734)	(42,070)
Preferred unit and share redemptions	-	8,100	-	(1,130)
	\$ 76,642	\$ 145,926	\$ 138,991	\$ 377,916

**NET INCOME attributable to
common shareholders****INCOME PER COMMON SHARE -
BASIC:**

Income from continuing operations, net	\$ 0.40	\$ 0.43	\$ 0.72	\$ 0.63
Income from discontinued operations, net	0.01	0.35	0.02	1.39
Net income per common share	\$ 0.41	\$ 0.78	\$ 0.74	\$ 2.02
Weighted average shares outstanding	187,527	186,931	187,418	186,842

**INCOME PER COMMON SHARE -
DILUTED:**

Income from continuing operations, net	\$ 0.40	\$ 0.43	\$ 0.72	\$ 0.62
Income from discontinued operations, net	0.01	0.35	0.02	1.39
Net income per common share	\$ 0.41	\$ 0.78	\$ 0.74	\$ 2.01
Weighted average shares outstanding	188,617	187,720	188,431	187,627

**DIVIDENDS PER COMMON
SHARE**

	\$ 0.73	\$ 0.73	\$ 1.46	\$ 1.46
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See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(Amounts in thousands)	For the Three		For the Six	
	Months Ended June 30,		Months Ended June 30,	
	2014	2013	2014	2013
Net income	\$ 165,687	\$ 182,321	\$ 263,843	\$ 471,248
Other comprehensive income (loss):				
Change in unrealized net gain on available-for-sale securities	1,878	20,348	15,003	169,138
Pro rata share of other comprehensive income (loss) of				
nonconsolidated subsidiaries	14,163	(19,707)	5,877	(23,354)
Change in value of interest rate swap	(545)	12,037	1,065	14,560
Other	(2)	(3)	(1)	530
Comprehensive income	181,181	194,996	285,787	632,122
Less comprehensive income attributable to noncontrolling interests	(69,578)	(24,862)	(85,378)	(59,166)
Comprehensive income attributable to Vornado	\$ 111,603	\$ 170,134	\$ 200,409	\$ 572,956

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Preferred Shares		Common Shares		Additional Capital	Earnings Less Than Comprehensive Income Distributions	Non-Accumulated and controlling		Total Equity
	Shares	Amount	Shares	Amount			Other Comprehensive Income (Loss)	Interests in Consolidated Subsidiaries	
Balance, December 31, 2012	51,185	\$ 1,240,278	186,735	\$ 7,440	\$ 7,195,438	\$ (1,573,275)	\$ (18,946)	\$ 1,053,209	\$ 7,904,144
Net income attributable to Vornado	-	-	-	-	-	421,116	-	-	421,116
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	26,216	26,216
Dividends on common shares	-	-	-	-	-	(272,825)	-	-	(272,825)
Dividends on preferred shares	-	-	-	-	-	(42,070)	-	-	(42,070)
Issuance of Series L preferred shares	12,000	290,536	-	-	-	-	-	-	290,536
Redemption of Series F and Series H preferred shares	(10,500)	(253,269)	-	-	-	-	-	-	(253,269)
Common shares issued: Upon redemption of Class A units, at redemption value	-	-	180	7	14,973	-	-	-	14,980

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Under employees' share option plan	-	-	62	3	3,564	-	-	-	3,567
Under dividend reinvestment plan	-	-	11	-	903	-	-	-	903
Contributions:									
Real Estate Fund	-	-	-	-	-	-	-	18,781	18,781
Other	-	-	-	-	-	-	-	15,186	15,186
Distributions:									
Real Estate Fund	-	-	-	-	-	-	-	(43,145)	(43,145)
Other	-	-	-	-	-	-	-	(120,051)	(120,051)
Conversion of Series A preferred shares to common shares	(2)	(90)	3	-	90	-	-	-	-
Deferred compensation shares and options	-	-	-	-	4,786	(305)	-	-	4,481
Change in unrealized net gain on available-for-sale securities	-	-	-	-	-	-	169,138	-	169,138
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(23,354)	-	(23,354)
Change in value of interest rate swap	-	-	-	-	-	-	14,560	-	14,560
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(29,393)	-	-	-	(29,393)

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Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	(9,034)	-	(9,034)
Preferred unit and share redemptions	-	-	-	-	-	(1,130)	-	-	(1,130)
Deconsolidation of partially owned entity	-	-	-	-	-	-	-	(165,427)	(165,427)
Other	-	-	-	-	(25)	(3,154)	530	(34)	(2,683)
Balance, June 30, 2013	52,683	\$ 1,277,455	186,991	\$ 7,450	\$ 7,190,336	\$ (1,471,643)	\$ 132,894	\$ 784,735	\$ 7,921,227

See notes to consolidated financial statements (unaudited).

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

(Amounts in thousands)	Preferred Shares		Common Shares		Additional Capital	Earnings Less Than Comprehensive Income Distributions	Other Consolidated Income (Loss)	Non-	Interests in Consolidated Subsidiaries	Total Equity
	Shares	Amount	Shares	Amount				Accumulated controlling		
Balance, December 31, 2013	52,683	\$ 1,277,225	187,285	\$ 7,469	\$ 7,143,840	\$ (1,734,839)	\$ 71,537	\$ 829,512	\$ 7,594,744	
Net income attributable to Vornado	-	-	-	-	-	179,725	-	-	179,725	
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	75,554	75,554	
Dividends on common shares	-	-	-	-	-	(273,694)	-	-	(273,694)	
Dividends on preferred shares	-	-	-	-	-	(40,734)	-	-	(40,734)	
Common shares issued:										
Upon redemption of Class A units, at redemption value	-	-	199	8	19,763	-	-	-	19,771	
Under employees' share option plan	-	-	159	6	9,200	-	-	-	9,206	
Under dividend reinvestment plan	-	-	9	-	919	-	-	-	919	
Contributions:	-	-	-	-	-	-	-	5,297	5,297	

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Real Estate Fund Distributions:									
Real Estate Fund	-	-	-	-	-	-	-	(132,819)	(132,819)
Other	-	-	-	-	-	-	-	(301)	(301)
Transfer of noncontrolling interest in Real Estate Fund	-	-	-	-	-	-	-	(33,028)	(33,028)
Conversion of Series A preferred shares to common shares	(4)	(193)	6	-	193	-	-	-	-
Deferred compensation shares and options	-	-	7	1	3,383	(340)	-	-	3,044
Change in unrealized net gain on									