

VORNADO REALTY TRUST
Form 10-Q
August 03, 2015

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, 2015**
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)

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Maryland

(State or other jurisdiction of incorporation or organization)

22-1657560

(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 x No o

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 x No o

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

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

☐ Accelerated Filer

☐ 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 o No x

As of June 30, 2015, 188,496,525 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, 2015	December 31, 2014
ASSETS		
Real estate, at cost:		
Land	\$ 4,036,944	\$ 3,861,913
Buildings and improvements	12,188,912	11,705,749
Development costs and construction in progress	1,273,897	1,128,037
Leasehold improvements and equipment	129,930	126,659
Total	17,629,683	16,822,358
Less accumulated depreciation and amortization	(3,303,014)	(3,161,633)
Real estate, net	14,326,669	13,660,725
Cash and cash equivalents	516,337	1,198,477
Restricted cash	127,857	176,204
Marketable securities	159,991	206,323
Tenant and other receivables, net of allowance for doubtful accounts of \$10,944 and \$12,210	115,049	109,998
Investments in partially owned entities	1,477,090	1,246,496
Real estate fund investments	565,976	513,973
Receivable arising from the straight-lining of rents, net of allowance of \$3,229 and \$3,190	851,894	787,271
Deferred leasing and financing costs, net of accumulated amortization of \$280,286 and \$281,109	528,179	475,158
Identified intangible assets, net of accumulated amortization of \$207,744 and \$199,821	245,846	225,155
Assets related to discontinued operations	34,891	2,238,474
Other assets	636,128	410,066
	\$ 19,585,907	\$ 21,248,320
LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY		
Mortgages payable	\$ 8,562,314	\$ 8,263,165
Senior unsecured notes	847,463	1,347,159
Revolving credit facility debt	400,000	-
Accounts payable and accrued expenses	437,813	447,745
Deferred revenue	390,636	358,613
Deferred compensation plan	118,931	117,284
Liabilities related to discontinued operations	12,611	1,511,362
Other liabilities	417,935	375,830
Total liabilities	11,187,703	12,421,158
Commitments and contingencies		
Redeemable noncontrolling interests:		

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Class A units - 11,455,453 and 11,356,550 units outstanding	1,087,466	1,336,780
Series D cumulative redeemable preferred units - 177,101 and 1 units outstanding	5,428	1,000
Total redeemable noncontrolling interests	1,092,894	1,337,780
Vornado shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 52,678,429 and 52,678,939 shares	1,277,010	1,277,026
Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 188,496,525 and 187,887,498 shares	7,517	7,493
Additional capital	7,161,150	6,873,025
Earnings less than distributions	(1,958,546)	(1,505,385)
Accumulated other comprehensive income	50,613	93,267
Total Vornado shareholders' equity	6,537,744	6,745,426
Noncontrolling interests in consolidated subsidiaries	767,566	743,956
Total equity	7,305,310	7,489,382
	\$ 19,585,907	\$ 21,248,320

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(Amounts in thousands, except per share amounts)

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
REVENUES:				
Property rentals	\$ 514,843	\$ 478,490	\$ 1,015,117	\$ 945,630
Tenant expense reimbursements	62,215	55,110	129,136	114,411
Fee and other income	39,230	40,811	78,837	76,751
Total revenues	616,288	574,411	1,223,090	1,136,792
EXPENSES:				
Operating	242,690	230,398	497,183	466,959
Depreciation and amortization	136,957	113,200	261,079	244,992
General and administrative	39,189	40,478	97,681	87,980
Acquisition and transaction related costs	4,061	1,067	6,042	2,352
Total expenses	422,897	385,143	861,985	802,283
Operating income	193,391	189,268	361,105	334,509
Loss from partially owned entities	(5,231)	(53,742)	(7,636)	(51,763)
Income from real estate fund investments	26,368	100,110	50,457	118,258
Interest and other investment income, net	5,666	9,396	16,458	21,246
Interest and debt expense	(92,092)	(103,913)	(183,766)	(200,225)
Net gain on disposition of wholly owned and partially owned assets	-	905	1,860	10,540
Income before income taxes	128,102	142,024	238,478	232,565
Income tax benefit (expense)	88,072	(3,280)	87,101	(4,131)
Income from continuing operations	216,174	138,744	325,579	228,434
(Loss) income from discontinued operations	(774)	26,943	15,067	35,409
Net income	215,400	165,687	340,646	263,843
Less net income attributable to noncontrolling interests in:				
Consolidated subsidiaries	(19,186)	(63,975)	(35,068)	(75,554)
Operating Partnership	(10,198)	(4,704)	(15,485)	(8,564)
Net income attributable to Vornado	186,016	97,008	290,093	179,725
Preferred share dividends	(20,365)	(20,366)	(39,849)	(40,734)
NET INCOME attributable to common shareholders	\$ 165,651	\$ 76,642	\$ 250,244	\$ 138,991
INCOME PER COMMON SHARE - BASIC:				
Income from continuing operations, net	\$ 0.88	\$ 0.27	\$ 1.25	\$ 0.56
Income from discontinued operations, net	-	0.14	0.08	0.18
Net income per common share	\$ 0.88	\$ 0.41	\$ 1.33	\$ 0.74
	188,365	187,527	188,183	187,418

Weighted average shares
outstanding

**INCOME (LOSS) PER COMMON
SHARE - DILUTED:**

Income from continuing operations, net	\$ 0.88	\$ 0.27	\$ 1.25	\$ 0.56
(Loss) income from discontinued operations, net	(0.01)	0.14	0.07	0.18
Net income per common share	\$ 0.87	\$ 0.41	\$ 1.32	\$ 0.74
Weighted average shares outstanding	189,600	188,617	189,775	188,431
DIVIDENDS PER COMMON SHARE	\$ 0.63	\$ 0.73	\$ 1.26	\$ 1.46

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

(Amounts in thousands)	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$ 215,400	\$ 165,687	\$ 340,646	\$ 263,843
Other comprehensive income (loss):				
Change in unrealized net (loss) gain on available-for-sale securities	(25,000)	1,878	(46,332)	15,003
Pro rata share of other comprehensive (loss) income of				
nonconsolidated subsidiaries	(1,191)	14,163	(1,034)	5,877
Change in value of interest rate swap and other	2,848	(547)	2,077	1,064
Comprehensive income	192,057	181,181	295,357	285,787
Less comprehensive income attributable to noncontrolling interests	(28,037)	(69,578)	(47,918)	(85,378)
Comprehensive income attributable to Vornado	\$ 164,020	\$ 111,603	\$ 247,439	\$ 200,409

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	Earnings	Other	Non-	
	Shares	Amount	Shares	Amount	Capital	Less Than	Comprehensive	controlling	Total
						Distributions	Income	Interests	Equity
							(Loss)	in	
								Consolidated	
								Subsidiaries	
Balance, December 31, 2014	52,679	\$1,277,026	187,887	\$7,493	\$6,873,025	\$(1,505,385)	\$ 93,267	\$743,956	\$7,489,382
Net income attributable to Vornado	-	-	-	-	-	290,093	-	-	290,093
Net income attributable to noncontrolling interests in consolidated subsidiaries	-	-	-	-	-	-	-	35,068	35,068
Distribution of Urban Edge Properties	-	-	-	-	-	(464,262)	-	(341)	(464,603)
Dividends on common shares	-	-	-	-	-	(237,160)	-	-	(237,160)
Dividends on preferred shares	-	-	-	-	-	(39,849)	-	-	(39,849)
Common shares issued: Upon redemption of Class A units, at redemption value	-	-	400	16	43,262	-	-	-	43,278
Under employees' share option plan	-	-	195	7	12,972	(2,579)	-	-	10,400
Under dividend	-	-	7	-	701	-	-	-	701

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reinvestment plan										
Contributions:										
Real estate fund investments	-	-	-	-	-	-	-	51,725	51,725	
Distributions:										
Real estate fund investments	-	-	-	-	-	-	-	(62,495)	(62,495)	
Other	-	-	-	-	-	-	-	(255)	(255)	
Conversion of Series A preferred shares to common shares	(1)	(16)	1	-	16	-	-	-	-	
Deferred compensation shares and options	-	-	7	1	1,653	(359)	-	-	-	1,295
Change in unrealized net loss on available-for-sale securities	-	-	-	-	-	-	(46,332)	-	-	(46,332)
Pro rata share of other comprehensive loss of nonconsolidated subsidiaries	-	-	-	-	-	-	(1,034)	-	-	(1,034)
Change in value of interest rate swap	-	-	-	-	-	-	2,073	-	-	2,073
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	229,521	-	-	-	-	229,521
Redeemable noncontrolling interests' share of above adjustments	-	-	-	-	-	-	2,635	-	-	2,635
Other	-	-	-	-	-	955	4	(92)	-	867
Balance,										
June 30, 2015	52,678	\$1,277,010	188,497	\$7,517	\$7,161,150	\$(1,958,546)	\$ 50,613	\$767,566	\$7,305,310	

See notes to consolidated financial statements (unaudited).

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

(Amounts in
thousands)

	Preferred Shares		Common Shares		Additional	Earnings	Other	Non-	
	Shares	Amount	Shares	Amount	Capital	Less Than	Comprehensive	controlling	Total
						Distributions	Income	Interests	Equity
							(Loss)	in	
								Consolidated	
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 investments									
Distributions:									
Real estate fund investments	-	-	-	-	-	-	-	(132,819)	(132,819)
Other	-	-	-	-	-	-	-	(301)	(301)
Transfer of noncontrolling interest in real estate fund investments	-	-	-	-	-	-	-	(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 available-for-sale securities	-	-	-	-	-	-	15,003	-	15,003
Pro rata share of other comprehensive income of nonconsolidated subsidiaries	-	-	-	-	-	-	5,877	-	5,877
Change in value of interest rate swap	-	-	-	-	-	-	1,065	-	1,065
Adjustments to carry redeemable Class A units at redemption value	-	-	-	-	(227,338)	-	-	-	(227,338)
Redeemable noncontrolling interests' share of above	-	-	-	-	-	-	(1,260)	-	(1,260)

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adjustments									
Other	-	(6)	-	-	(297)	(2,368)	(1)	(5)	(2,677)
Balance,									
June 30, 2014	52,679	\$ 1,277,026	187,665	\$ 7,484	\$ 6,949,663	\$(1,872,250)	\$ 92,221	\$ 744,210	\$ 7,198,354