

Section 1: 10-K405/A (AMENDMENT NO. 1 TO FORM 10-K/A)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K\A
AMENDMENT NO. 1

/XX/ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the Fiscal Year Ended: DECEMBER 31, 1994

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: 1-5098

VORNADO REALTY TRUST

(Exact name of Registrant as specified in its charter)

MARYLAND

22-1657560

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification Number)

PARK 80 WEST, PLAZA II, SADDLE BROOK, NEW JERSEY

07663

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number including area code: (201) 587-1000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

Common Shares of beneficial interest \$.04 par value per share

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405
of Regulation S-K is not contained herein, and will not be contained, to the
best of registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K. /X/

The aggregate market value of the voting shares held by non-affiliates of the registrant, i.e. by persons other than officers and trustees of Vornado Realty Trust as reflected in the table in Item 12 of this Annual Report, at March 9, 1995 was \$466,429,315.

As of March 9, 1995, there were 21,697,608 shares of the registrant's shares of beneficial interest outstanding.

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THIS FORM 10-K/A AMENDS THE FOLLOWING ITEMS OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K PREVIOUSLY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 23, 1995.

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PART II

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

| | Year Ended | | | |
|--|--|----------------------|----------------------|----------------------|
| | December 31, 1994 | December 31, 1993 | December 31, 1992 | December 31, 1991 |
| ===== | | | | |
| OPERATING DATA | (in thousands, except share and per share amounts) | | | |
| Revenues: | | | | |
| Property rentals | \$ 70,755 | \$ 67,213 | \$ 63,186 | \$ 61,371 |
| Expense reimbursements | 21,784 | 19,839 | 17,898 | 16,865 |
| Other income | 1,459 | 1,738 | 913 | 262 |
| Total Revenues | 93,998 | 88,790 | 81,997 | 78,498 |
| Expenses: | | | | |
| Operating | 30,223 | 27,994 | 27,587 | 25,848 |
| Depreciation and amortization | 9,963 | 9,392 | 9,309 | 9,115 |
| General and administrative | 6,495 | 5,890 | 4,612 | 4,770 |
| Costs incurred in connection with the merger Vornado, Inc. into Vornado Realty Trust | -- | 856 | -- | -- |
| Cost incurred upon exercise of a stock option by an officer and subsequent repurchase of a portion of the shares | -- | -- | 15,650 | -- |
| Total Expenses | 46,681 | 44,132 | 57,158 | 39,733 |
| Operating income | 47,317 | 44,658 | 24,839 | 38,765 |
| Interest and dividend income | 7,489 | 11,620 | 8,555 | 9,303 |
| Interest and debt expense | (14,209) | (31,155) | (33,910) | (34,930) |
| Net gain (loss) on marketable securities | 643 | 263 | 2,779 | 4,862 |
| Income from continuing operations before income taxes and extraordinary item | 41,240 | 25,386 | 2,263 | 18,000 |
| Provision (benefit) for income taxes | -- | (6,369) | 1,080 | 7,527 |
| Income from continuing operations before extraordinary item | \$ 41,240 | \$ 31,755 | \$ 1,183 | \$ 10,473 |
| Weighted average number of shares outstanding | 21,853,720 | 19,790,448 | 16,559,330 | 16,324,895 |
| Income per share from | | | | |

| | | | | |
|-------------------------|---------|---------|--------|--------|
| continuing operations | \$ 1.89 | \$ 1.60 | \$.07 | \$.64 |
| Cash dividends declared | 2.00 | 1.50* | 1.15 | 1.08 |

* Does not include special dividend of \$3.36 per share of accumulated earnings and profits paid in June 1993.

BALANCE SHEET DATA

| | | | | |
|--------------------------------|-----------|-----------|-----------|-----------|
| As at: | | | | |
| Total assets | \$393,538 | \$385,830 | \$420,616 | \$393,447 |
| Real estate, at cost | 365,832 | 340,415 | 314,651 | 305,123 |
| Accumulated depreciation | 128,705 | 118,742 | 111,142 | 103,520 |
| Long-term debt | 234,160 | 235,037 | 341,701 | 345,608 |
| Shareholders' equity (deficit) | 116,688 | 115,737 | (3,242) | 8,125 |

| | | |
|--|--------------|---------------|
| | Year Ended | Eleven Months |
| | ----- | Ended |
| | December 31, | December 31, |
| | 1990 (1) | 1990 (1) |

OPERATING DATA

(in thousands, except per share amounts)

| | | |
|--|-----------|-----------|
| Revenues: | | |
| Property rentals | \$ 58,524 | \$ 53,768 |
| Expense reimbursements | 16,938 | 15,468 |
| Other income | 111 | 111 |
| Total Revenues | 75,573 | 69,347 |
| Expenses: | | |
| Operating | 25,393 | 23,101 |
| Depreciation and amortization | 8,491 | 7,824 |
| General and administrative | 6,121 | 5,527 |
| Costs incurred in connection with the merger Vornado, Inc. into Vornado Realty Trust | -- | -- |
| Cost incurred upon exercise of a stock option by an officer and subsequent repurchase of a portion of the shares | -- | -- |
| Total Expenses | 40,005 | 36,452 |
| Operating income | 35,568 | 32,895 |
| Interest and dividend income | 12,125 | 11,051 |
| Interest and debt expense | (35,120) | (32,189) |
| Net gain (loss) on marketable securities | (1,836) | (3) |
| Income from continuing operations before income taxes and extraordinary item | 10,737 | 11,754 |
| Provision (benefit) for income taxes | 4,414 | 4,827 |
| Income from continuing operations before extraordinary item | \$ 6,323 | \$ 6,927 |

| | | |
|--|------------|------------|
| Weighted average number of shares outstanding | 16,357,643 | 16,357,643 |
| Income per share from continuing operations | \$.39 | \$.42 |
| Cash dividends declared | .27 | .27 |

* Does not include special dividend of \$3.36 per share of accumulated earnings and profits paid in June 1993.

BALANCE SHEET DATA

| | | |
|--------------------------------|-----------|-----------|
| As at: | | |
| Total assets | \$387,866 | \$387,866 |
| Real estate, at cost | 303,511 | 303,511 |
| Accumulated depreciation | 100,501 | 100,501 |
| Long-term debt | 357,459 | 357,459 |
| Shareholders' equity (deficit) | 15,421 | 15,421 |

| | | | | |
|--|--------------|--------------|--------------|--------------|
| | Year Ended | | | |
| | ----- | ----- | ----- | ----- |
| | December 31, | December 31, | December 31, | December 31, |
| | 1994 | 1993 | 1992 | 1991 |

OTHER DATA

Funds from operations (2) (3):

| | | | | |
|--|------------------|------------------|------------------|------------------|
| Income from continuing operations before income taxes and extraordinary item | \$ 41,240 | \$ 25,386 | \$ 2,263 | \$ 18,000 |
| Depreciation and amortization of real property | 9,192 | 8,842 | 8,778 | 8,604 |
| Straight-lining of rental income | (2,181) | (2,200) | (2,200) | (2,200) |
| (Gains)/losses on sale of securities available for sale | (51) | (263) | (846) | (1,932) |
| Costs incurred in connection with the merger/upon exercise of a stock option | -- | 856 | 15,650 | -- |
| Funds from operations | \$ 48,200 | \$ 32,621 | \$ 23,645 | \$ 22,472 |
| ===== | | | | |
| Cash flow provided by (used in): | | | | |
| Operating activities | \$ 46,948 | \$ 27,725 | \$ 17,607 | \$ 36,244 |
| Investing activities | \$(15,434) | \$ 1,350 | \$ 14,800 | \$(17,214) |
| Financing activities | \$(32,074) | \$(56,433) | \$ 4,384 | \$(9,815) |
| ===== | | | | |

| | Year Ended | Eleven Months |
|--|--------------|---------------|
| | ----- | Ended |
| | December 31, | December 31, |
| | 1990 (1) | 1990 (1) |

OTHER DATA

Funds from operations (2) (3):

| | | |
|--|------------------|------------------|
| Income from continuing operations before income taxes and extraordinary item | \$ 10,737 | \$ 11,754 |
| Depreciation and amortization of real property | 8,123 | 7,392 |
| Straight-lining of rental income | (2,109) | (1,933) |
| (Gains)/losses on sale of securities available for sale | 3,295 | 1,443 |
| Costs incurred in connection with the merger/upon exercise of a stock option | -- | -- |
| Funds from operations | \$ 20,046 | \$ 18,656 |
| ===== | | |
| Cash flow provided by (used in): | | |
| Operating activities | \$ (3,163) | \$ (2,900) |
| Investing activities | \$(70,805) | \$(70,805) |
| Financing activities | \$ (6,200) | \$ (5,683) |
| ===== | | |

(1) In 1990, the Company changed to a calendar year end from a fiscal year ending on the last Saturday in January. The amounts for the year ended December 31, 1990 are included for comparative purposes only.

(2) Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs. Funds from operations should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity.

(3) Effective January 1, 1995, the Company changed its definition of funds from operations to exclude amortization of debt issuance costs and depreciation of personal property. Prior period amounts have been restated to conform to the current year's presentation. The Company's definition of funds from operations does not conform to the NAREIT definition because the Company deducts the effect of straight-lining of property rentals.

Amounts included in revenues and expenses have been reclassified to conform with the current year's presentation.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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RESULTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1994
AND DECEMBER 31, 1993

The Company's revenues, which consist of property rentals, tenant expense reimbursements and other income were \$93,998,000 in 1994, compared to \$88,790,000 in 1993, an increase of \$5,208,000 or 5.9%.

Property rentals from shopping centers were \$63,778,000 in 1994, compared to \$60,919,000 in 1993, an increase of \$2,859,000 or 4.7%. This increase resulted from rental step-ups in leases which are not subject to the straight-line method of revenue recognition of \$1,700,000 and \$1,300,000 of rents from tenants at expansions of shopping centers. Property rentals from new tenants were approximately the same as property rentals lost from vacating tenants. Property rentals from the remainder of the portfolio were \$6,090,000 in 1994 as compared to \$5,340,000 in 1993, an increase of \$750,000 or 14.0%. This increase resulted primarily from property rentals received from new tenants exceeding property rentals lost from vacating tenants. Percentage rent was \$887,000 in 1994 as compared to \$954,000 in 1993.

Tenant expense reimbursements were \$21,784,000 in 1994, compared to \$19,839,000 in 1993, an increase of \$1,945,000. This increase reflects a corresponding increase in operating expenses passed through to tenants.

Other income was greater in 1993 than in 1994 primarily as a result of reimbursements recognized under the Company's leasing agreement with Alexander's in 1993.

Operating expenses were \$30,223,000 in 1994 as compared to \$27,994,000 in 1993, an increase of \$2,229,000. This increase resulted primarily from an increase in real estate taxes, snow removal costs and other common area maintenance charges.

Depreciation and amortization expense increased in 1994 primarily as a result of the completion of property expansions.

General and administrative expenses were \$6,495,000 in 1994 as compared to \$5,890,000 in 1993, an increase of \$605,000. This increase resulted from higher professional fees and payroll.

Investment income from cash and cash equivalents, and marketable securities, net of amounts due for U.S. Treasury obligations (collectively, "Liquid Investments"), was \$8,132,000 in 1994 compared to \$11,883,000 in 1993, a decrease of \$3,751,000 or 31.6%. The change in investment income resulted primarily from a decrease in interest and dividend income of \$4,131,000 as a result of lower average investments due to the use of approximately \$100,000,000 to reduce debt in November 1993, partially offset by an increase in net gains on marketable securities.

Interest and debt expense was \$14,209,000 in 1994 as compared to \$31,155,000 in 1993, a decrease of \$16,946,000 or 54.3%. Of this decrease, (i) \$14,586,000 resulted from the refinancing of a blanket mortgage loan (see Note 6), and (ii) \$1,300,000 resulted from an increase in capitalized interest during construction.

The Company operates in a manner intended to enable it to continue to qualify as a real estate investment trust ("REIT") under Sections 856-860 of the Internal Revenue Code of 1986 as amended (the "Code"). Under those sections, a REIT which distributes at least 95% of its REIT taxable income to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. The Company has distributed to its shareholders an amount greater than its taxable income. Therefore, no provision for Federal income taxes is required. In 1993, as a result of the Company's conversion to a REIT, the deferred tax balance of \$6,369,000 at December 31, 1992 was reversed.

RESULTS OF OPERATIONS
YEARS ENDED DECEMBER 31, 1993
AND DECEMBER 31, 1992

The Company's revenues, which consist of property rentals, tenant expense reimbursements and other income were \$88,790,000 in 1993, compared to \$81,997,000 in 1992, an increase of \$6,793,000 or 8.3%.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

Property rentals from shopping centers were \$60,919,000 in 1993, compared to \$56,185,000 in 1992, an increase of \$4,734,000 or 8.4%. This increase resulted from rental step-ups in existing tenant leases which are not subject to the straight-line method of revenue recognition of \$2,061,000 and property rentals received from new tenants exceeding property rentals lost from vacating tenants. Property rentals from the remainder of the portfolio were \$5,340,000 in 1993 as compared to \$6,316,000 in 1992, a decrease of \$976,000 or 15.4%. Of this decrease (i) \$477,000 resulted from the closing of the outlet department store

at the Company's Watchung, New Jersey location on June 1, 1993 as part of a redevelopment plan (see Liquidity and Capital Resources) and (ii) \$499,000 resulted from the excess of property rentals lost from vacating tenants over property rentals received from new tenants. Percentage rent was \$954,000 in 1993 as compared to \$685,000 in 1992.

Tenant expense reimbursements were \$19,839,000 in 1993, compared to \$17,898,000 in 1992, an increase of \$1,941,000. This increase relates to a corresponding increase in operating expenses passed through to tenants and reimbursements from tenants under leases which commenced subsequent to January 1, 1992.

Other income increased as a result of reimbursements of \$750,000 recognized in 1993 under the Company's leasing agreement with Alexander's and a full year of management fees received from Interstate Properties in 1993 as compared to a partial year in 1992.

Operating expenses were \$27,994,000 in 1993 as compared to \$27,587,000 in 1992, an increase of \$407,000. This increase resulted primarily from a rise in real estate taxes offset by savings of \$500,000 in connection with the closing of the abovementioned outlet department store.

Depreciation and amortization expense for 1993 did not change significantly from 1992.

General and administrative expenses were \$5,890,000 in 1993 as compared to \$4,612,000 in 1992, an increase of \$1,278,000. This increase resulted from increases in (i) payroll of \$500,000, of which \$300,000 was applicable to employees added in connection with the management of Interstate Properties (see other income above), (ii) professional fees of \$408,000 and (iii) general corporate office expenses of \$370,000.

In connection with the merger of Vornado, Inc. into Vornado Realty Trust, the Company incurred costs of \$856,000.

The Company recorded an expense of \$15,650,000 in 1992 upon the exercise of a stock option by an officer and the subsequent repurchase of a portion of the shares.

Investment income from Liquid Investments was \$11,883,000 in 1993 compared to \$11,334,000 in 1992, an increase of \$549,000 or 4.8%. The change in investment income resulted primarily from an increase in interest and dividend income of \$3,065,000 offset by a decrease in net gains on the sale of marketable securities of \$2,516,000 (including \$1,932,000 from the Company's former investment in a limited partnership, which was liquidated at December 31, 1992 at book value for cash). Of the increase in interest and dividend income, \$1,912,000 was attributable to interest income earned on the net proceeds from the issuance of 5,211,700 common shares of beneficial interest in May 1993, net of a distribution of accumulated earnings and profits and working capital used to prepay a blanket mortgage loan. The balance of the increase resulted from the mix of other investments.

Interest and debt expense was \$31,155,000 in 1993 as compared to \$33,910,000 in 1992, a decrease of \$2,755,000 or 8.1%. Of this decrease, (i) \$1,600,000 resulted from the refinancing of a blanket mortgage loan (see Note 6), and (ii) \$282,000 was due to an increase in capitalized interest during construction.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

LIQUIDITY AND CAPITAL RESOURCES

YEAR ENDED DECEMBER 31, 1994

Cash flows provided by operating activities of \$46,948,000 was comprised of: (i) net income of \$41,240,000, and (ii) adjustments for non-cash items of \$8,015,000, less (iii) the net change in operating assets and liabilities of \$2,307,000. The adjustments for non-cash items are primarily comprised of depreciation and amortization of \$10,839,000, offset by the effect of straight-lining of rental income of \$2,181,000.

Net cash used in investing activities of \$15,434,000 was comprised of capital expenditures of \$25,417,000, offset by proceeds from the sale of securities available for sale of \$9,983,000.

Net cash used in financing activities of \$32,074,000 was primarily comprised of dividends paid of \$43,236,000, offset by borrowings on U.S. Treasury obligations of \$11,428,000.

YEAR ENDED DECEMBER 31, 1993

Cash flows provided by operating activities of \$27,725,000 was primarily comprised of: (i) net income of \$31,755,000 less (ii) adjustments for non-cash items of \$599,000 and the net change in operating assets and liabilities of \$2,831,000. The adjustments for non-cash items are primarily comprised of depreciation and amortization of \$11,435,000, offset by (i) the effect of straight-lining of rental income of \$2,200,000, (ii) the reversal of deferred income taxes of \$6,369,000, and (iii) the loss on the early extinguishment of debt of \$3,202,000.

Net cash provided by investing activities of \$1,350,000 was comprised of net proceeds from the sale of securities available for sale of \$28,336,000, offset by capital expenditures of \$26,986,000.

Net cash used in financing activities of \$56,433,000 was primarily comprised of (i) debt repayments of \$333,664,000, net of proceeds from borrowings of \$227,000,000, less \$5,247,000 of deferred debt expenses incurred therewith (ii) dividends paid to shareholders of \$84,482,000 (including a special dividend of \$54,022,000 of accumulated earnings and profits, as determined for federal income tax purposes), and (iii) repayment of borrowings on U.S. Treasury obligations of \$30,048,000, offset by (iv) net proceeds from issuance of common shares of \$172,051,000.

YEAR ENDED DECEMBER 31, 1992

Cash flows provided by operating activities of \$17,607,000 was comprised of: (i) net income of \$1,183,000, (ii) adjustments for non-cash items of \$7,291,000, (iii) net cash from discontinued operations of \$2,276,000 and (iv) the net change in operating assets and liabilities of \$6,857,000. The adjustments for non-cash items are primarily comprised of depreciation and amortization of \$11,470,000, offset by the effect of straight-lining of rental income of \$2,200,000 and a net gain on marketable securities of \$2,779,000.

Net cash provided by investing activities of \$14,800,000 was comprised of net proceeds from the sale of securities available for sale of \$26,015,000, offset by capital expenditures of \$11,215,000.

Net cash provided by financing activities of \$4,384,000 was primarily comprised of borrowings on U.S. Treasury obligations of \$28,719,000 and proceeds from the exercise of stock options of \$4,825,000, offset by (i) dividends paid of \$17,541,000, (ii) net loans to officers of \$7,623,000 and (iii) net payments on borrowings of \$3,907,000.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

LIQUIDITY AND CAPITAL RESOURCES

Management considers funds from operations an appropriate supplemental measure of the Company's operating performance. Funds from operations were \$48,200,000 in 1994, compared to \$32,621,000 in 1993, an increase of \$15,579,000 or 47.8%. The following table reconciles funds from operations and net income:

| | Year Ended Dec. 31, | |
|---|---------------------|--------------|
| | 1994 | 1993 |
| Net income | \$41,240,000 | \$25,386,000 |
| Depreciation and amortization of real property | 9,192,000 | 8,842,000 |
| Straight-lining of property rentals | (2,181,000) | (2,200,000) |
| Gain on sale of securities available for sale | (51,000) | (263,500) |
| Cost incurred in connection with merger/upon exercise of stock option | | 856,000 |
| Funds from operations * | \$48,200,000 | \$32,621,000 |

* Effective January 1, 1995, the Company changed its definition of funds from operations to exclude amortization of debt issuance costs and depreciation of personal property. Prior period amounts have been restated to conform to the current year's presentation. The Company's definition of funds from operations does not conform to the NAREIT definition because the Company deducts the effect of the straight-lining of property rentals.

Funds from operations does not represent cash generated from operating activities in accordance with generally accepted accounting principles and is not necessarily indicative of cash available to fund cash needs. Funds from operations should not be considered as an alternative to net income as an indicator of the Company's operating performance or as an alternative to cash flows as a measure of liquidity. Below are the cash flows provided by (used in) operating, investing and financing activities:

| | Year Ended Dec. 31, | |
|----------------------|---------------------|----------------|
| | 1994 | 1993 |
| Operating activities | \$ 46,948,000 | \$ 27,725,000 |
| Investing activities | \$(15,434,000) | \$ 1,350,000 |
| Financing activities | \$(32,074,000) | \$(56,433,000) |

The major items of capital expenditures for 1994 were (i) \$11,400,000 for expansions in three shopping centers, (ii) \$3,900,000 for the acquisition of a building in Philadelphia, Pennsylvania and (iii) \$2,100,000 for the tenant improvements at the Company's retail property at 14th Street in Manhattan, New York. The Company has budgeted approximately \$13,500,000 for investment over the next two years of which \$10,000,000 is for future expansions and \$2,000,000 is for tenant improvements at the Company's retail property in Philadelphia, noted above. In addition, the Company will continue its program of upgrading its shopping centers by refurbishing its parking lots (including resurfacing, new lighting, updated landscaping, islands and curbing) and re-roofing of buildings, the cost of which will be substantially reimbursed by tenants in accordance with existing lease terms.

In July 1992, the Company was retained by Alexander's Inc. to act as a special real estate consultant. The Company is due approximately \$12,400,000 for transactions completed to date. Of this amount, the Company was due to receive \$500,000 on July 1, 1994 but has not received such payment. The balance of \$11.9 million will be payable over a seven year period in an amount not to exceed \$2,500,000 in any calendar year until the present value of such installments (calculated at a discount rate of 9% per annum) equals the amount that would have been paid had it been paid on September 21, 1993 or at the time the transactions which gave rise to the commissions occurred, if later. Such receipts are subject to payment of rents by the underlying tenants pursuant to the leases and to the prior satisfaction of all payments to which certain creditors of Alexander's are entitled under the plan of reorganization confirmed by such creditors (see Notes 13-D and 17).

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

On March 2, 1995, following bankruptcy court approval of the loan and management arrangements described below, the Company purchased all of the 1,353,468 shares of common stock of Alexander's, Inc. ("Alexander's") owned by Citibank, N.A. ("Citibank") for \$40.50 per share in cash (the "Acquisition"), representing 27.1% of the outstanding common stock of Alexander's. After the Acquisition, the Company owns 29.3% of the outstanding shares of common stock of Alexander's. Interstate Properties, which owns 31% of the common shares of beneficial interest of the Company, currently owns 27.1% of the outstanding shares of Alexander's common stock.

The Company and Alexander's have entered into a three year management and development agreement (the "Management Agreement") under which the Company has agreed to manage all Alexander's business affairs and manage and develop Alexander's properties for an annual fee of \$3,000,000; plus 6% of development costs with a minimum guaranteed fee for the development portion of \$1,650,000 in the first year and \$750,000 in each of the second and third years.

The fees pursuant to the Management Agreement discussed above, are in addition

to leasing fees the Company receives from Alexander's under a leasing agreement in effect since 1992. The term of the leasing agreement has been extended to be co-terminus with the term of the Management Agreement.

On March 15, 1995, the Company and a bank lent Alexander's \$75,000,000 in a secured financing, of which \$45,000,000 was funded by the Company and the balance was funded by the bank. The Company's loan, which is subordinate to that of the bank, has a three year term and bears interest at 16.43% per annum for the first two years and at a fixed rate for the third year of 992 basis points over one year treasury bills. In addition, Alexander's paid a loan origination fee of \$1,500,000 to the Company.

On February 27, 1995, the Company entered into a three year unsecured revolving credit facility with a bank providing for borrowings of up to \$75,000,000. Borrowings bear annual interest, at the Company's election, at Libor plus 1.50% or the higher of the federal funds rate plus 1% or prime rate plus .50%. At March 15, 1995, the Company had borrowed \$60,000,000 under the agreement.

In May 1994, the Company's shelf registration statement relating to \$350,000,000 of securities became effective.

The Company anticipates that cash from continuing operations, working capital, borrowings under its revolving credit facility and/or proceeds from the issuance of securities under the Company's shelf registration statement will be adequate to fund its business operations, capital expenditures, continuing debt service obligations, the payment of dividends and the Alexander's transactions noted above.

ECONOMIC CONDITIONS

Substantially all of the Company's leases contain step-ups in rent. Such rental increases are not designed to, and in many instances do not, approximate the cost of inflation, but do have the effect of mitigating the adverse impact of inflation. In addition, substantially all of the Company's leases contain provisions that require the tenant to reimburse the Company for the tenant's share of common area charges (including roof and structure, unless it is the tenant's direct responsibility) and real estate taxes thus passing through to the tenants the effects of inflation on such expenses.

Inflation did not have a material effect on the Company's results for the periods presented.

RECENTLY ISSUED ACCOUNTING STANDARDS

In May 1993, the Financial Accounting Standards Board adopted Statement No. 114, "Accounting by Creditors for Impairment of a Loan". The statement is effective for fiscal years beginning after December 15, 1994. The Company believes that this pronouncement will not have a material effect on its financial condition or results of operation.

In October 1994, the Financial Accounting Standards Board adopted Statement No. 118, "Accounting by Creditors for Impairment of a Loan--Income Recognition and Disclosures". The statement is effective for fiscal years beginning after December 15, 1994. The Company believes that this pronouncement will not have a material effect on its financial condition or results of operation.

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VORNADO REALTY TRUST

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VORNADO REALTY TRUST

(Registrant)

Date: December 20, 1995

/s/Joseph Macnow

JOSEPH MACNOW
Vice President - Chief Financial
Officer and Chief Accounting Officer

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