VORNADO REALTY TRUST
Form 10-K/A
June 10, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the Fiscal Year Ended: December 31, 2004

OR

o 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: 1-11954

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)

888 Seventh Avenue, New York, New York	**10019**
(Address of Principal Executive Offices)	(Zip Code)

Registrant s telephone number including area code: **(212) 894-7000**

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
Series A Convertible Preferred Shares of beneficial interest, no par value	New York Stock Exchange
8.5% Series B Cumulative Redeemable Preferred Shares of beneficial interest, no par value	New York Stock Exchange
8.5% Series C Cumulative Redeemable Preferred Shares of beneficial interest, no par value	New York Stock Exchange
7.0% Series E Cumulative Redeemable Preferred Shares of beneficial interest, no par value	New York Stock Exchange
6.75% Series F Cumulative Redeemable Preferred Shares of beneficial interest, no par value	New York Stock Exchange
6.625% Series G Cumulative Redeemable Preferred Shares of beneficial interest, no par value	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 ý NO o

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/A or any amendment to this Form 10-K/A. o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). YES ý NO o

Aggregate market value of the voting and non-voting common 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 Form 10-K/A at June 30, 2004 was $5,790,469,000.

As of February 1, 2005, there were 127,819,849 of the registrant s common shares of beneficial interest outstanding.

Documents Incorporated by Reference

Part III: Portions of Proxy Statement for Annual Meeting of Shareholders to be held on May 18, 2005.

EXPLANATORY PARAGRAPH

This Form 10-K/A is being filed for the purpose of restating the Company s consolidated statements of cash flows for the years ended December 31, 2004, 2003 and 2002 to reclassify $16,740,000, $6,666,000 and $65,197,000, respectively, from net cash used in investing activities to net cash provided by operating activities as they relate to distributions of income received from investments in partially-owned entities accounted for on the equity method. The restatement does not affect the total net change in cash and cash equivalents for each of the three years in the period ended December 31, 2004, and has no impact on the Company s consolidated balance sheets, consolidated statements of income or the related income per share amounts. It also has no impact on the non-GAAP measure of funds from operations which is described on page 103. Conforming changes have been made to management s discussion and analysis of financial condition and results of operations included in this Form 10-K/A. See footnote 21 in the notes to the consolidated financial statements for further information relating to the restatement. In connection with the restatement, management has revised its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004. This Form 10-K/A has not been updated for events or information subsequent to the date of filing of the original Form 10-K except in connection with the foregoing. Accordingly, this Form 10-K/A should be read in conjunction with the Company's filings made with the SEC subsequent to the filing of the original Form 10-K.

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(1) The Registrant will file a definitive Proxy Statement pursuant to Regulation 14A involving the election of trustees with the Securities and Exchange Commission not later than 120 days after December 31, 2004, portions of which are incorporated by reference herein. Information relating to Executive Officers of the Registrant appears on page 49 of this Annual Report on Form 10-K/A.

FORWARD LOOKING STATEMENTS

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Forward-looking statements are not guarantees of performance. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as plans, intends, estimates, anticipates, expects, believes or similar expressions in this annual report on Form 10-K/A. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors see Item 1. Business Certain Factors That May Adversely Affect Our Business and Operations in this annual report on Form 10-K/A.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this annual report on Form 10-K/A or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this annual report on Form 10-K/A.

PART I

ITEM 1. BUSINESS

THE COMPANY

Vornado Realty Trust is a fully-integrated real estate investment trust (REIT) and conducts its business through Vornado Realty L.P., a Delaware limited partnership (the Operating Partnership). All references to We, Us, Company and Vornado refer to Vornado Realty Trust a its consolidated subsidiaries, including the Operating Partnership. Vornado is the sole general partner of, and owned approximately 87% of the common limited partnership interest in, the Operating Partnership at December 31, 2004.

The Company currently owns directly or indirectly:

Office Properties (Office):

(i) all or portions of 86 office properties aggregating approximately 27.6 million square feet in the New York City metropolitan area (primarily Manhattan) and in the Washington D.C. and Northern Virginia area;

Retail Properties (Retail):

(ii) 94 retail properties in seven states and Puerto Rico aggregating approximately 14.2 million square feet, including 2.8 million square feet built by tenants on land leased from the Company;

Merchandise Mart Properties:

(iii) 8.6 million square feet of showroom and office space, including the 3.4 million square foot Merchandise Mart in Chicago;

Temperature Controlled Logistics:

(iv) a 47.6% interest in Americold Realty Trust which owns and operates 88 cold storage warehouses nationwide;

Other Real Estate Investments:

(v) 33% of the outstanding common stock of Alexander s, Inc. (Alexander s) which has six properties in the greater New York metropolitan area;

(vi) the Hotel Pennsylvania in New York City consisting of a hotel portion containing 1.0 million square feet with 1,700 rooms and a commercial portion containing 0.4 million square feet of retail and office space;

(vii) a 22.4% interest in The Newkirk Master Limited Partnership (Newkirk MLP) which owns office, retail and industrial properties net leased primarily to credit rated tenants, and various debt interests in such properties;

(viii) seven dry warehouse/industrial properties in New Jersey containing approximately 1.7 million square feet;

(ix) mezzanine loans to real estate related companies; and

(x) interests in other real estate including a 12.25% interest in GMH Communities L.P. (which owns and manages student and military housing properties throughout the United States), other investments and marketable securities.

OBJECTIVES AND STRATEGY

Our business objective is to maximize shareholder value. We intend to achieve this objective by continuing to pursue our investment philosophy and executing our operating strategies through:

Maintaining a superior team of operating and investment professionals and an entrepreneurial spirit;

Investing in properties in select markets, such as New York City and Washington, D.C., where we believe there is high likelihood of capital appreciation;

Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents;

Investing in retail properties in select under-stored locations such as the New York City metropolitan area;

Investing in fully-integrated operating companies that have a significant real estate component with qualified, experienced operating management and strong growth potential which can benefit from our access to efficient capital;

Developing/redeveloping our existing properties to increase returns and maximize value; and

Providing specialty financing to real estate related companies.

We expect to finance our growth, acquisitions and investments using internally generated funds, proceeds from possible asset sales and by accessing the public and private capital markets.

2004 ACQUISITIONS AND INVESTMENTS

During the year ended December 31, 2004, the Company has completed $328,600,000 of acquisitions and investments in real estate, of which $246,600,000 related to the retail segment. In addition, the Company made $183,400,000 of mezzanine loans during 2004 which increased the outstanding balance of Notes and Mortgage Loans Receivable to $440,186,000 at December 31, 2004. Details of these transactions are described in Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K/A.

Investment in GMH Communities L.P.

On July 20, 2004, the Company committed to make up to a $159,000,000 convertible preferred investment in GMH Communities L.P. (GMH), a partnership focused on the student and military housing sectors. Distributions accrued on the full committed balance of the investment, whether or not drawn, from July 20, 2004, at a rate of 16.27%. In connection with this commitment, the Company received a placement fee of $3,200,000. The Company also purchased for $1,000,000, warrants to acquire GMH common equity. These warrants entitle the Company to acquire (i) 6,666,667 limited partnership units in GMH at an exercise price of $7.50 per unit and (ii) 5,496,724 limited partnership units, through May 6, 2006, at an exercise price of $9.10 per unit. As of November 3, 2004, the Company had funded a total of $113,777,000 of the commitment.

On November 3, 2004, GMH Communities Trust (GCT) closed its initial public offering (IPO) at a price of $12.00 per share. GCT is a real estate investment trust that conducts its business through GMH, of which it is the sole general partner. In connection with the IPO, the $113,777,000 previously funded by the Company under the $159,000,000 commitment was repaid, together with accrued distributions of $13,381,000. The Company also exercised warrants to purchase 6,666,667 limited partnership units at a price of $7.50 per unit, or $50,000,000 in total, which resulted in a gain of $29,500,000. The Company accounts for its interest in the partnership units on the equity-method based on its 12.25% ownership interest and right to appoint one of its executive officers to GCT s Board of Trustees. The Company records its pro-rata share of GMH s net income or loss on a one-quarter lag basis as the Company files its financial statements on Form 10-K or 10-Q prior to the time GMH files its financial statements.

Under the warrant agreement, the number of GMH partnership units or GCT common shares underlying the warrants is adjusted for dividends declared by GCT. On December 16, 2004, GCT declared a dividend of $.16 per common share, which increased the number of shares underlying the warrants from 5,496,724 to 5,563,417 and the exercise price was decreased from $9.10 to $8.99 per share. Because these warrants are derivatives and do not qualify for hedge accounting treatment, the gains and losses resulting from the mark-to-market of the warrants at the end of each reporting period are recognized as an increase or decrease in interest and other investment income on the Company s consolidated statement of income. In the quarter ended December 31, 2004, the Company recognized income of $24,190,000 from the mark-to-market of these warrants, which were valued using a trinomial option pricing model based on GCT s closing stock price on the NYSE of $14.10 per share on December 31, 2004.

Further, in connection with the IPO, the Company contributed its 90% interest in Campus Club Gainesville, which it acquired in 2000, in exchange for an additional 671,190 GMH limited partnership units.

Of the Company s GMH units, 6,666,667 may be converted into an equivalent number of common shares of GCT commencing on May 2, 2005 and 671,190 units may be converted commencing on November 2, 2005. The Company has agreed not to sell any common shares or units it owns or may acquire until May 2, 2005.

Investment in Sears, Roebuck and Co.

In July and August 2004, the Company acquired an aggregate of 1,176,600 common shares of Sears, Roebuck and Co. (Sears) for $41,945,000, an average price of $35.65 per share. Included in the cost is $1,361,000 for a performance-based participation. These shares are recorded as marketable securities on the Company s consolidated balance sheet and are classified as available for sale. Appreciation or depreciation in the fair market value of these shares is recorded as an increase or decrease in accumulated other comprehensive income in the shareholders equity section of the Company s consolidated balance sheet and not recognized in income. At December 31, 2004, based on Sears closing stock price of $51.03 per share, $18,105,000 of appreciation in the value of these shares was included in accumulated other comprehensive income.

In August and September 2004, the Company acquired an economic interest in an additional 7,916,900 Sears common shares through a series of privately negotiated transactions with a financial institution pursuant to which the Company purchased a call option and simultaneously sold a put option at the same strike price on Sears common shares. These call and put options have an initial weighted-average strike price of $39.82 per share, or an aggregate of $315,250,000, expire in April 2006 and provide for net cash settlement. Under these agreements, the strike price for each pair of options increases at an annual rate of LIBOR plus 45 basis points and is credited for the dividends received on the shares. The options provide the Company with the same economic gain or loss as if it had purchased the underlying common shares and borrowed the aggregate strike price at an annual rate of LIBOR plus 45 basis points. Because these options are derivatives and do not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the options at the end of each reporting period are recognized as an increase or decrease in interest and other investment income on the Company s consolidated statement of income. During the year ended December 31, 2004, the Company recorded net income of $81,730,000, comprised of (i) $88,782,000 from the mark-to-market of the options on December 31, 2004, based on Sears closing stock price of $51.03 per share and (ii) $2,295,000 for accrued dividends, partially offset by (i) $5,972,000 for a performance-based participation, (ii) $2,371,000 for the increase in strike price resulting from the LIBOR charge and (iii) $1,004,000 of professional fees.

On November 16, 2004, Kmart Holding Corporation (Kmart) and Sears entered into an Agreement and Plan of Merger. Upon the effective date of the merger, each share of Sears common stock will be converted into the right to receive, at the election of the holder, (i) $50.00 in cash or (ii) 0.50 shares of common stock of the merged company, subject to proration so that 55% of the Sears shares are exchanged for shares of the merged company.

Based on Sears most recent filing with the Securities and Exchange Commission, the Company s aggregate investment in Sears represents 4.2% of Sears outstanding common shares.

2004 DISPOSITIONS

On June 29, 2004, the Company sold the Palisades Residential Complex for $222,500,000, which resulted in a net gain on sale after closing costs of $65,905,000. Substantially all of the proceeds from the sale were reinvested in tax-free like kind exchange investments pursuant to Section 1031 of the Internal Revenue Code (Section 1031).

On August 12, 2004, the Company sold its Dundalk, Maryland shopping center for $12,900,000, which resulted in a net gain on sale after closing costs of $9,850,000. Substantially all of the proceeds from the sale have been reinvested in tax-free like-kind exchange investments pursuant to Section 1031 .

On November 4, 2004, Americold Realty Trust (Americold), owned 60% by the Company, purchased its tenant, AmeriCold Logistics, for $47,700,000 in cash. On November 18, 2004 the Company and its 40% partner, Crescent Real Estate Equities Company (CEI) collectively sold 20.7% of Americold s common shares to The Yucaipa Companies (Yucaipa) for $145,000,000, which resulted in a gain, of which the Company s share was $18,789,000. In connection with the governance provisions of the transaction, the Company has the right to appoint three of the five members to Americold s Board of Trustees. Consequently, the Company is deemed to exercise control over Americold and on November 18, 2004 began to consolidate Americold s operations and financial position and no longer accounts for its investment on the equity method.

Further details regarding the Company s dispositions are disclosed in Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to the Consolidated Financial Statements in this annual report on Form 10-K/A.

DEVELOPMENT AND REDEVELOPMENT PROJECTS

The Company is currently engaged in various development/redevelopment projects for which it has budgeted approximately $470.0 million. Of this amount $30.9 million was expended in 2004 (excluding $104.5 million for projects completed in 2004) and $310.0 million is estimated to be expended in 2005. Below is a description of these projects.

		The Company s Share of		
($ in millions)	**Estimated Completion Date**	**Estimated Project Cost**	**Costs Expended in Year Ended December 31, 2004**	**Estimated Costs to Complete**
In Progress:				
New York Office:				
Redevelopment of 7 West 34th Street office space to permanent showroom space for Gift industry manufacturers and wholesalers	2005-2006	$ 33.0	$ .5	$ 32.5
CESCR:				
Crystal City Office space to be vacated by the U.S. Government Patent and Trade Office (PTO):				
(i)Renovation of buildings (see next page)	2005-2007	75.0(1)	11.0	64.0
(ii)Cost to retenant	2005-2007	75.0(1)		75.0
Retail:				
Green Acres Mall interior and exterior renovation, construction of an additional 63,600 square feet of free-standing retail space, parking decks and site-work and tenant improvements for B.J. s Wholesale who will construct its own store(2)	2006	71.0	1.0	69.0
Bergen Mall expand, re-tenant and redevelop the mall(2)	2008	102.0	1.6	100.0
Strip shopping centers redevelopment of five properties and one industrial warehouse(2)	2005-2006	54.0	7.2	44.0
715 Lexington Avenue - demolition of existing building and construction of 24,000 square feet of retail space on four floors	Fall 2005	19.0	4.9	12.0
968 Third Avenue (50% interest) demolition of existing building and construction of 5,700 square feet of retail space on three floors	Spring 2005	6.0	1.8	1.0
Other:				
Penn Plaza Signage District construction of approximately 21 signs at various locations in the Penn Plaza District, of which 10 have been completed as of December 31, 2004	Ongoing	35.0	2.9	20.0
		$ 470.0	$ 30.9	$ 417.5

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(1) Revised from the prior estimate of $90.0 million to renovate the buildings and $60.0 million to re-tenant the space.

(2) Subject to governmental approvals.

The Company is also in the pre-development phase of other projects including, retail space in the Penn Plaza area, repositioning of the Hotel Pennsylvania, expansion of the Monmouth Mall and renovation of the 2101 L Street office building.

There can be no assurance that any of the above projects will commence or be completed on schedule or on budget.

The Company has substantially completed the following projects during 2004:

	The Company s Share of		
($ in millions)	Project Cost	Costs Expended in Year Ended December 31, 2004	Estimated Costs to Complete
Completed in 2004:			
New York City:			
640 Fifth Avenue construction of additional 47,000 square feet of office space and redevelopment of existing building	$ 64.0	$ 13.9	$ 6.0
CESCR:			
Crystal Drive Retail construction of additional 57,000 square feet of retail space and improvements to the infrastructure including streets, signals and signs as part of way finding program	43.0	25.5	3.0
Retail:			
4 Union Square South redevelopment of 198,000 square feet, of which 193,000 square feet has been leased to Whole Foods, Forever 21, DSW Shoe Warehouse and Filenes	54.0	29.6	6.0
Strip shopping centers site work and/or demolition of existing buildings as part of the redevelopment of six properties released to Wal-Mart and Lowes. (each of these locations were previously leased to Bradlees.)	18.0	16.9	
Merchandise Mart:			
350 West Mart Center, Chicago addition of 40,000 square feet at street level and new lobby and drive	18.0	14.6	2.0
Other:			
400 North LaSalle (85% interest) construction of 381,000 square foot, high-rise rental apartment complex containing 452 apartments	78.0	4.0	1.0
	$ 275.0	$ 104.5	$ 18.0

PTO Space Redevelopment:

The Company plans to redevelop certain office buildings in which the PTO has vacated or will vacate space as their leases expire over the next two years as follows:

		Square Feet Vacated	Square Feet Expiring (in thousands)				
		2004	2005				2006
	Total	Q4	Q1	Q2	Q3	Q4	Q1
Taken out of Service:							
Crystal Plaza Three	263	263					
Crystal Plaza Four	234	234					
Remaining in Service:							
Crystal Plaza Two	181		181				
Crystal Park One	224	13	109	64		38	

Crystal Park Two	406	39	103	77		98	89
Crystal Park Three	107	67		24			16
Crystal Park Five	194			194			
Crystal Mall One	180	180					