

# Section 1: 10-Q (VORNADO REALTY TRUST)

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EXHIBIT INDEX ON PAGE 19

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended: MARCH 31, 1998

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: 1-11954

VORNADO REALTY TRUST  
(Exact name of registrant as specified in its charter)

MARYLAND  
(State or other jurisdiction of incorporation  
or organization)

22-1657560  
(I.R.S. Employer  
Identification Number)

PARK 80 WEST, PLAZA II, SADDLE BROOK, NEW JERSEY  
(Address of principal executive offices)

07663  
(Zip Code)

(201)587-1000  
(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

As of May 1, 1998 there were 83,323,425 common shares outstanding.

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VORNADO REALTY TRUST

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## PART I. FINANCIAL INFORMATION

## VORNADO REALTY TRUST

CONSOLIDATED BALANCE SHEETS  
(AMOUNTS IN THOUSANDS EXCEPT SHARE AMOUNTS)

	MARCH 31, 1998	DECEMBER 31, 1997
	-----	-----
ASSETS:		
Real estate, at cost:		
Land	\$ 482,366	\$ 436,274
Buildings and improvements	1,634,080	1,118,334
Leasehold improvements and equipment	9,684	9,485
	-----	-----
Total	2,126,130	1,564,093
Less accumulated depreciation and amortization	(183,402)	(173,434)
	-----	-----
Real estate, net	1,942,728	1,390,659
Cash and cash equivalents, including U.S. government obligations under repurchase agreements of \$172,614 and \$8,775	236,657	355,954
Restricted cash	27,419	27,079
Marketable securities	35,685	34,469
Investment in and advances to partially-owned entities, including investments in and advance to Alexander's of \$108,433 and		

\$108,752	487,555	482,787
Due from officers	12,145	8,625
Accounts receivable, net of allowance for doubtful accounts of \$730 and \$658	22,982	16,663
Mortgage loans receivable	91,163	88,663
Receivable arising from the straight- lining of rents	27,776	24,127
Other assets	81,079	95,063
	-----	-----

TOTAL ASSETS	\$ 2,965,189	\$ 2,524,089
	=====	=====

MARCH 31,	DECEMBER 31,
1998	1997
-----	-----

LIABILITIES AND SHAREHOLDERS' EQUITY:

Notes and mortgages payable	\$ 729,132	\$ 586,654
Revolving credit facility	656,000	370,000
Accounts payable and accrued expenses	48,460	36,538
Officer's deferred compensation payable	25,000	25,000
Deferred leasing fee income	10,026	9,927
Other liabilities	3,592	3,641
	-----	-----
	1,472,210	1,031,760
	-----	-----

Minority interest of unitholders in the Operating Partnership	178,965	178,567
	-----	-----

Commitments and contingencies  
Shareholders' equity:

Preferred shares of beneficial interest: no par value per share; authorized, 20,000,000 shares; liquidation preference \$50.00 per share; issued, 5,789,315 shares	280,601	279,884
Common shares of beneficial interest: \$.04 par value per share; authorized, 100,000,000 shares; issued 72,185,535 and 72,164,654 shares in each period	2,887	2,887
Additional capital	1,146,775	1,146,385
Accumulated deficit	(112,002)	(109,561)
	-----	-----
	1,318,261	1,319,595
Unrealized gain (loss) on securities available for sale	711	(840)
Due from officers for purchase of common shares of beneficial interest	(4,958)	(4,993)
	-----	-----
Total shareholders' equity	1,314,014	1,313,762
	-----	-----

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 2,965,189	\$ 2,524,089
	=====	=====

See notes to consolidated financial statements.

(amounts in thousands except per share amounts)

	FOR THE THREE MONTHS ENDED	
	MARCH 31, 1998	MARCH 31, 1997
	-----	-----
Revenues:		
Property rentals	\$ 72,365	\$ 22,467
Expense reimbursements	15,696	6,210
Other income (including fee income from related parties of \$405 and \$314)	2,150	620
	-----	-----
Total revenues	90,211	29,297
	-----	-----
Expenses:		
Operating	34,153	8,507
Depreciation and amortization	10,366	2,967
General and administrative	4,947	1,845
Amortization of officer's deferred compensation expense	--	6,249
	-----	-----
Total expenses	49,466	19,568
	-----	-----
Operating income	40,745	9,729
Income applicable to Alexander's	1,656	1,405
Income from partially owned entities	3,920	217
Interest and other investment income	7,566	2,417
Interest and debt expense	(19,823)	(4,078)
Minority interest of unitholders in the Operating Partnership	(2,577)	--
	-----	-----
Net Income	31,487	9,690
Preferred stock dividends	(5,423)	--
	-----	-----
Net Income applicable to common shares	\$ 26,064	\$ 9,690
	=====	=====
Net Income per common share - basic	\$ .36	\$ .19
	=====	=====
Net income per common share - diluted	\$ .35	\$ .18
	=====	=====
Dividends per common share	\$ .40	\$ .32

See notes to consolidated financial statements.

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VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

	FOR THE THREE MONTHS ENDED	
	MARCH 31, 1998	MARCH 31, 1997
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 31,487	\$ 9,690
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation and amortization (including debt issuance costs)	11,171	3,228
Amortization of officer's deferred compensation expense	--	6,249
Straight-lining of rental income	(2,292)	(669)
Minority interest of unitholders in the Operating Partnership	398	--

Equity in income (loss) of Alexander's, including depreciation of \$150 in each period	(120)	211
Equity in net income of partially-owned entities	(3,920)	--
Gain on marketable securities	(1,391)	(287)
Changes in operating assets and liabilities	(1,760)	1,331
	-----	-----
Net cash provided by operating activities	33,573	19,753
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of real estate	(503,877)	--
Investment in mortgage loans receivable	(2,500)	82
Cash restricted for tenant improvements	(340)	--
Additions to real estate	(20,435)	(365)
Purchases of securities available for sale	(13,616)	--
Proceeds from sale or maturity of securities available for sale	14,903	--
Real estate deposits and other	(18,000)	--
	-----	-----
Net cash used in investing activities	(543,865)	(283)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from borrowings	547,192	--
Repayments on borrowings	(118,714)	(190)
Debt issuance costs	(3,945)	--
Proceeds from borrowings on U.S. Treasury obligations	--	142
Dividends paid on common shares	(28,505)	(16,691)
Dividends paid on preferred shares	(5,423)	--
Exercise of stock options	390	--
	-----	-----
Net cash provided by (used in) financing activities	390,995	(16,739)
	-----	-----
Net (decrease) increase in cash and cash equivalents	(119,297)	2,731
Cash and cash equivalents at beginning of period	355,954	89,696
	-----	-----
Cash and cash equivalents at end of period	\$ 236,657	\$ 92,427
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	\$ 19,418	\$ 3,817
	=====	=====
NON-CASH TRANSACTIONS:		
Unrealized gain (loss) on securities available for sale	\$ 1,551	\$ (25)
	=====	=====

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Vornado Realty Trust ("Vornado") is a fully-integrated real estate investment trust ("REIT"). In April 1997, Vornado transferred substantially all of its assets to Vornado Realty L.P., a Delaware limited partnership (the "Operating Partnership"). As a result, Vornado now conducts its business through, and substantially of its interests in properties are held by, the Operating Partnership. Vornado is the sole general partner of the Operating Partnership and owns a 91.2% limited partnership interest at April 30, 1998. All references to "Vornado" in these financial statements refer to Vornado Realty Trust; all references to the "Operating Partnership" refer to Vornado Realty L.P. and all references to the "Company" refer to Vornado and its consolidated subsidiaries, including the Operating Partnership.

2. BASIS OF PRESENTATION

The consolidated balance sheet as of March 31, 1998, the consolidated statements of income for the three months ended March 31, 1998 and March 31,

1997 and the consolidated statements of changes in cash flows for the three months ended March 31, 1998 and March 31, 1997 are unaudited. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in Vornado's 1997 Annual Report to Shareholders. The results of operations for the period ended March 31, 1998 are not necessarily indicative of the operating results for the full year.

The accompanying unaudited consolidated condensed financial statements include the accounts of Vornado Realty Trust and its majority-owned subsidiary, Vornado Realty L.P. All significant intercompany amounts have been eliminated. Equity interests in partially-owned entities include partnerships, joint ventures and preferred stock affiliates (corporations in which the Company owns all of the preferred stock and none of the common equity) and are accounted for under the equity method of accounting as the Company exercises significant influence. These investments are recorded initially at cost and subsequently adjusted for equity in net income (loss) and cash contributions and distributions. Ownership of the preferred stock entitles the Company to substantially all of the economic benefits in the preferred stock affiliates. The common stock of the preferred stock affiliates is owned by Officers and Trustees of Vornado.

### 3. ACQUISITIONS

#### Westport

On January 29, 1998, the Company acquired the Westport Corporate Office Park from a limited partnership that included members of the Mendik Group, a related party. The purchase price was approximately \$14,000,000 consisting of \$6 million of cash and an \$8 million mortgage loan.

#### One Penn Plaza

On February 9, 1998, the Company acquired a long-term leasehold interest in One Penn Plaza, a Manhattan office building from Mid-City Associates. The purchase price was approximately \$410 million consisting of \$317 million of cash and a \$93 million bridge mortgage loan.

#### 150 East 58th Street

On March 9, 1998, the Company acquired 150 East 58th Street (the "Architects and Design Center"), a Manhattan office building, for a cash purchase price of approximately \$118 million, from a limited partnership.

#### PRO FORMA INFORMATION

The unaudited pro forma condensed consolidated information set forth below presents (i) the condensed consolidated statements of income for Vornado for the three months ended March 31, 1998 and 1997 as if the following had occurred on January 1, 1997: (a) the acquisitions described above, (b) acquisitions and investments completed in 1997 and (c) the subsequent events as described in Note 8 and (ii) the condensed consolidated pro forma balance sheet of Vornado as of March 31, 1997, as if such acquisitions and financings had occurred on that date.

#### Condensed Consolidated Pro Forma Income Statements

Pro Forma	
-----	
Three Months Ended	
-----	
March 31, 1998	March 31, 1997
-----	

(amounts in thousands, except per share amounts)

Revenues	\$ 125,600	\$ 121,800
	=====	=====
Net income	\$ 37,600	\$ 33,900
Preferred stock dividends	(5,400)	(5,100)
	-----	-----
Net income applicable to common shares	\$ 32,200	\$ 28,800
	=====	=====
Net income per common share - basic	\$ .39	\$ .35
	=====	=====
Net income per common share - diluted	\$ .38	\$ .34
	=====	=====

Condensed Consolidated Pro Forma Balance Sheet at March 31, 1998

Total assets	\$3,452,200
	=====
Total liabilities	\$1,393,700
Minority interest	295,000
Total shareholders' equity	1,763,500
	-----
Total liabilities and shareholders' equity	\$3,452,200
	=====

4. INVESTMENTS IN AND ADVANCES TO PARTIALLY-OWNED ENTITIES:

The Company's investments in and advances to partially-owned entities and income recognized from such investments is as follows:

INVESTMENTS AND ADVANCES:

	March 31, 1998	December 31, 1997
	-----	-----
	(amounts in thousands)	
Cold Storage Companies	\$246,523	\$243,846
Alexander's	108,433	108,752
Charles E. Smith Commercial Realty L.P.	61,183	60,437
Hotel Pennsylvania	20,551	20,152
Mendik Partially-Owned Office Buildings	38,029	37,209
Vornado Management Corp. and Mendik Management Company	12,836	12,391
	-----	-----
	\$487,555	\$482,787
	=====	=====

INCOME:

	Three Months Ended	
	-----	-----
	March 31, 1998	March 31, 1997
	-----	-----
	(amounts in thousands)	
Income Applicable to Alexander's	\$ 1,656	\$ 1,405
	=====	=====
Other Partially-Owned Entities:		
Cold Storage Companies	\$ 1,714	--
Hotel Pennsylvania	(56)	--
Charles E. Smith Commercial Realty L.P.	999	--

Mendik Partially-Owned Office Buildings	913	--
Vornado Management Corp. and Mendik Management Company	350	\$ 217
	-----	-----
	\$ 3,920	\$ 217
	=====	=====

#### Alexander's

Alexander's is managed by and its properties are leased by the Company pursuant to agreements with a one-year term which are automatically renewable. Subject to the payments of rents by Alexander's tenants, the Company is due \$6,078,000 under its leasing agreement with Alexander's which amount is included in Investments in and Advances to Alexander's. Included in Income from Vornado Management Corp. is management fee income from Alexander's of \$938,000 in each of the three months ended March 31, 1998 and 1997.

#### Cold Storage Companies

On March 25, 1998, the Cold Storage Companies entered into an agreement to acquire the assets of Freezer Services, Inc., consisting of nine cold storage warehouses for approximately \$134 million, including \$22 million of indebtedness. There can be no assurance that this proposed transaction will ultimately be completed.

On April 23, 1998, the Cold Storage Companies completed a \$550,000,000 non-recourse ten-year loan secured by 58 of its warehouses. The loan bears interest at 6.89%. The net proceeds from the loan together with working capital were used to repay \$607,000,000 of bridge financing, which replaced high yield debt assumed at the date of acquisition.

#### Hotel Pennsylvania

On May 1, 1998, the Company acquired an additional 40% interest in the Hotel Pennsylvania increasing its ownership to 80%. The Company purchased the additional 40% interest from Hotel Properties Limited (one of its joint venture partners) for approximately \$70 million, including \$48 million of existing debt.

#### 5. OTHER RELATED PARTY TRANSACTIONS

The Company lent Mr. Fascitelli, the President of the Company, \$3,500,000 on March 2, 1998 and \$2,600,000 on April 30, 1998, in accordance with the terms of his employment agreement. The loans have a five-year term and bear interest, payable quarterly, at a rate of 5.47% and 5.58%, respectively (based on the mid-term applicable federal rate provided under the Internal Revenue Code).

The Company currently manages and leases the real estate assets of Interstate Properties pursuant to a management agreement. Management fees earned by the Company pursuant to the management agreement were \$198,000 and \$193,000 for the three months ended March 31, 1998 and 1997.

The Mendik Group owns an entity which provides cleaning and related services and security services to office properties including the Company's Manhattan office properties acquired subsequent to March 31, 1997. The Company was charged fees for these services of \$5,267,000 for the three months ended March 31, 1998, a portion of which is expected to be reimbursed to the Company by its tenants.

#### 6. CONTINGENCIES

In January 1997, two individual investors in Mendik Real Estate Limited Partnership ("RELPL"), the publicly held limited partnership that indirectly owns a 60% interest in the Two Park Avenue Property, filed a purported class action against NY Real Estate Services 1, Inc. ("NY Real Estate"), Mendik RELPL Corp., B&B Park Avenue, L.P. (an indirect subsidiary of the Company which acquired the remaining 40% interest in Two Park Avenue) and Bernard H. Mendik in the Supreme Court of the State of New York, County of New York, on behalf of all persons



holding limited partnership interests in RELP. The complaint alleges that, for reasons which include purported conflicts of interest, the defendants breached their fiduciary duty to the limited partners, that the then proposed transfer of the 40% interest in Two Park Avenue would result in a burden on the operation and management of Two Park Avenue and that the transfer of the 40% interest violates RELP's right of first refusal to purchase the interest being transferred and fails to provide limited partners in RELP with a comparable transfer opportunity. Shortly after the filing of the complaint, another limited partner represented by the same attorneys filed an essentially identical complaint in the same court. Both complaints seek unspecified damages, an accounting and a judgment requiring either the liquidation of RELP and the appointment of a receiver or an auction of Two Park Avenue. Discussions to settle the actions have been ongoing, but no settlement has been reached. In August 1997, a fourth limited partner, represented by separate counsel, commenced another purported class action in the same court by serving a complaint essentially identical to the complaints in the two previously commenced actions. Management believes that the ultimate outcome of these matters will not have a material adverse effect on the Company.

In April 1997, the Company's Lodi shopping center was destroyed by a fire. The Company intends to rebuild the shopping center commencing in 1998, which rebuilding is subject to the approval of local authorities. The Company carries replacement value insurance. To date, the insurance carrier has paid the Company \$5,500,000 as a deposit for the above mentioned rebuilding. In the event the Company cannot rebuild the shopping center, a large portion of the deposit would be returned to the carrier. If the shopping center is rebuilt, the Company will recognize a gain measured by the total proceeds from the insurance carrier, which could amount to approximately \$10,000,000, net of the book value of the property of \$1,564,000.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended	
	----- March 31, 1998	March 31, 1997 -----
	(amounts in thousands except per share amounts)	
Numerator:		
Net income	\$ 31,487	\$ 9,690
Preferred stock dividends	(5,423)	--
	-----	-----
Numerator for basic and diluted earnings per share- income applicable to common shares	\$ 26,064	\$ 9,690
	=====	=====
Denominator:		
Denominator for basic earnings per share - weighted average shares	72,165	52,176
Effect of dilutive securities: Employee stock options	2,188	924
	-----	-----
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	74,353	53,100
	=====	=====
Net income per common share - basic	\$ .36	\$ .19
	=====	=====
Net income per common share - diluted	\$ .35	\$ .18
	=====	=====

8. SUBSEQUENT EVENTS

The Merchandise Mart Properties

On April 1, 1998, the Company closed its previously announced acquisition of a real estate portfolio from the Kennedy Family for approximately \$630 million, consisting of \$187 million in cash, \$116 million in Operating Partnership Units, \$77 million in existing debt and \$250 million of newly issued debt.

The acquired real estate assets consist of a portfolio of properties used for office, retail and trade showroom space which aggregate approximately 5.4 million square feet and include the Merchandise Mart in Chicago. The transaction also includes the acquisition of Merchandise Mart Properties, Inc. which manages the properties and trade shows.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Sale of Common Shares

On April 15, 1998, the Company completed the sale of 10,000,000 common shares pursuant to an effective registration statement with net proceeds to the Company of approximately \$401 million. On April 29, 1998, the Company sold 1,132,420 common shares to a unit investment trust, which were valued for the purpose of the trust at \$41.06 per share, resulting in net proceeds of approximately \$44 million.

570 Lexington Avenue

On April 20, 1998, the Company increased its interest from 5.6% to approximately 50% in 570 Lexington Avenue, a 49 story office building located in midtown Manhattan containing approximately 435,000 square feet. The Company purchased the additional interest for approximately \$37.2 million, including \$4.9 million of existing debt.

Hotel Pennsylvania

On May 1, 1998, the Company acquired an additional 40% interest in the Hotel Pennsylvania increasing its ownership to 80%. The Company purchased the additional 40% interest from Hotel Properties Limited (one of its joint venture partners) for approximately \$70 million, including \$48 million of existing debt.

9. COMPREHENSIVE INCOME

In June 1997, the Financial Accounting Standards Board issued Statement No. 130, "Reporting Comprehensive Income" (SFAS 130). SFAS 130 establishes standards for reporting and display of comprehensive income and its components. The statement, which requires disclosure of net income including unrealized gains and losses recognized in the equity section of the balance sheet, was adopted by the Company in the first quarter of 1998.

The Company's comprehensive income was \$27,615,000 and \$9,665,000 for the three months ended March 31, 1998 and 1997 after giving effect to unrealized gains and (losses) on securities available for sale.

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VORNADO REALTY TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements made in this report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the "Reform Act"). Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different

from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions, which will, among other things, affect demand for retail space or retail goods, availability and creditworthiness of prospective tenants, lease rents and the terms and availability of financing; adverse changes in the real estate markets including, among other things, competition with other companies and technology; risks of real estate development and acquisition; governmental actions and initiatives; and environmental/safety requirements.

RESULTS OF OPERATIONS

The Company's revenues, which consist of property rentals, tenant expense reimbursements and other income were \$90,211,000 in the three months ended March 31, 1998, compared to \$29,297,000 in the prior year's quarter, an increase of \$60,914,000. This increase was primarily comprised of \$59,642,000 of revenues from properties acquired subsequent to March 31, 1997.

Property rentals were \$72,365,000 in the three months ended March 31, 1998, compared to \$22,467,000 in the prior year's quarter, an increase of \$49,898,000. This increase resulted from:

Acquisitions:

PROPERTY -----	DATE OF ACQUISITION -----	AMOUNT -----
150 E.58th Street	March 1998	\$ 1,132,000
One Penn Plaza	February 1998	8,173,000
Westport	January 1998	455,000
Green Acres Mall	December 1997	5,598,000
640 Fifth Avenue	December 1997	1,340,000
Riese	June 1997	1,277,000
90 Park Avenue	May 1997	6,932,000
Mendik	April 1997	21,729,000
Montehiedra Shopping Center	April 1997	2,203,000
		-----
		48,839,000
Shopping center leasing activity		683,000
Step-ups in shopping center leases		376,000
		-----
		\$49,898,000
		=====

Tenant expense reimbursements were \$15,696,000 in the three months ended March 31, 1998, compared to \$6,210,000 in the prior year's quarter, an increase of \$9,486,000. This increase was primarily comprised of \$8,992,000 of reimbursements from tenants at properties acquired subsequent to March 31, 1997.

Operating expenses were \$34,153,000 in the three months ended March 31, 1998, as compared to \$8,507,000 in the prior year's quarter, an increase of \$25,646,000. This increase was primarily comprised of \$24,557,000 of expenses from properties acquired subsequent to March 31, 1997.

Depreciation and amortization expense increased in 1998 as compared to 1997, primarily as a result of acquisitions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General and administrative expenses were \$4,947,000 in the three months ended March 31, 1998 compared to \$1,845,000 in the prior year's quarter, an increase of \$3,102,000. This increase resulted primarily from Mendik Division payroll and expenses of \$1,266,000, payroll and other corporate office expenses of \$851,000 and professional fees of \$665,000.

The Company recognized an expense of \$6,249,000 in the prior year's quarter representing the amortization of the deferred payment due to the Company's President, which was fully amortized at December 31, 1997.

Income applicable to Alexander's (loan interest income, equity in income (loss) and depreciation) was \$1,656,000 in the three months ended March 31, 1998, compared to \$1,405,000 in the prior year's quarter, an increase of \$251,000. This increase resulted primarily from an increase in Alexander's operating income due to the commencement of leases at its Rego Park I and Kings Plaza Store properties.

Income from partially-owned entities was \$3,920,000 in the three months ended March 31, 1998, compared to \$217,000 in the prior year's quarter, an increase of \$3,703,000. This increase consists of: (i) \$1,714,000 from the Cold Storage Companies, (ii) \$913,000 from partially owned properties acquired as part of the Mendik Transaction and (iii) \$999,000 from the Company's 15% interest in Charles E. Smith Commercial Realty L.P.

Interest and other investment income (interest income on mortgage loans receivable, other interest income, dividend income and net gains on marketable securities) was \$7,566,000 for the three months ended March 31, 1998, compared to \$2,417,000 in the prior year's quarter, an increase of \$5,149,000. Of this increase (i) \$2,005,000 resulted from investments in mortgage loans receivable, (ii) \$1,950,000 resulted primarily from income earned on higher average investments and (iii) \$1,105,000 resulted from gains on the sale of marketable securities.

Interest and debt expense was \$19,823,000 for the three months ended March 31, 1998, compared to \$4,078,000 in the prior year's quarter, an increase of \$15,745,000. Of this increase, (i) \$7,423,000 resulted from borrowings under the Company's revolving credit facility and (ii) \$7,908,000 resulted from debt in connection with acquisitions.

The minority interest unit holders in the Operating Partnership are entitled to preferential distributions which aggregated \$2,577,000 for the three months ended March 31, 1998.

The preferred stock dividends of \$5,423,000 apply to the 6.5% preferred shares issued in April and December 1997 and include accretion of expenses of issuing them of \$717,000.

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VORNADO REALTY TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

Three Months Ended March 31, 1998

Cash flows provided by operating activities of \$33,573,000 was primarily comprised of (i) net income of \$31,487,000 and (ii) adjustments for non-cash items of \$5,237,000, offset by (iii) the net change in operating assets and liabilities of \$1,760,000. The adjustments for non-cash items are primarily comprised of (i) depreciation and amortization of \$11,171,000 and (ii) minority interest of \$398,000, partially offset by (iii) the effect of straight-lining of rental income of \$2,292,000 and (iv) equity in net income of partially-owned entities of \$3,920,000.

Net cash used in investing activities of \$543,865,000 was primarily comprised of (i) acquisitions of real estate of \$503,877,000, (One Penn Plaza (\$369,000,000), 150 East 58th Street (\$112,100,000) and Westport (\$14,000,000)) (ii) capital expenditures of \$20,435,000 and (iii) real estate deposits and other of \$18,000,000.

Net cash provided by financing activities of \$390,995,000 was primarily comprised of (i) proceeds from borrowings of \$547,192,000, partially offset by (ii) repayment of borrowings of \$118,714,000, (iii) dividends paid on common shares of \$28,505,000 and (iv) dividend paid on preferred shares of \$5,423,000 (includes accretion of expenses of issuing the preferred shares of \$717,000).

Three Months Ended March 31, 1997

Cash flows provided by operating activities of \$19,753,000 was comprised of (i) net income of \$9,690,000, (ii) adjustments for non-cash items of \$8,732,000 and (iii) the net change in operating assets and liabilities of \$1,331,000. The adjustments for non-cash items are primarily comprised of (i) amortization of deferred officer's compensation expense of \$6,249,000, (ii) depreciation and

amortization of \$3,228,000 and (iii) equity in loss of Alexander's of \$211,000, offset by (iv) the effect of straight-lining of rental income of \$669,000.

Net cash used in investing activities of \$283,000 was primarily comprised of capital expenditures.

Net cash used in financing activities of \$16,739,000 was primarily comprised of dividends paid on common shares.

VORNADO REALTY TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Funds from Operations for the Three Months Ended March 31, 1998 and 1997

Funds from operations were \$47,858,000 in the quarter ended March 31, 1998, compared to \$12,230,000 in the prior year's quarter, an increase of \$35,628,000. Funds from operations for the prior year's quarter reflect amortization of the deferred payment due to the Company's President of \$6,249,000. The following table reconciles funds from operations and net income:

	For The Three Months Ended	
	March 31, 1998	March 31, 1997
Net income applicable to common shares	\$ 26,064,000	\$ 9,690,000
Depreciation and amortization of real property	10,194,000	2,681,000
Straight-lining of property rentals for rent escalations	(2,292,000)	(669,000)
Leasing fees received in excess of income recognized	368,000	454,000
Proportionate share of adjustments to equity in net income of partially owned entities to arrive at funds from operations	10,947,000	74,000
Minority interest of unitholders in the Operating Partnership	2,577,000	--
Funds from operations	\$ 47,858,000	\$ 12,230,000

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, which is disclosed in the Consolidated Statements of Cash Flows for the applicable periods. There are no material legal or functional restrictions on the use of funds from operations. 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. Management considers funds from operations a relevant supplemental measure of operating performance because it provides a basis for comparison among REITs; however, funds from operations may not be comparable to similarly titled measures reported by other REITs since the Company's method of calculating funds from operations is different from that used by NAREIT. Funds from operations, as defined by NAREIT, represents net income applicable to common shares before depreciation and amortization, extraordinary items and gains or losses on sales of real estate. Funds from operations as disclosed above has been modified to adjust for the effect of straight-lining of property rentals for rent escalations and leasing fee income. Below are the cash flows provided by (used in) operating, investing and financing activities:

For The Three Months Ended	
March 31, 1998	March 31, 1997

Operating activities	\$ 33,573,000	\$ 19,753,000
	=====	=====
Investing activities	\$ (543,865,000)	\$ (283,000)
	=====	=====
Financing activities	\$ 390,995,000	\$(16,739,000)
	=====	=====

VORNADO REALTY TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Acquisitions:

On April 1, 1998, the Company closed its previously announced acquisition of a real estate portfolio from the Kennedy Family for approximately \$630 million, consisting of \$187 million in cash, \$116 million in Operating Partnership Units, \$77 million in existing debt and \$250 million of newly issued debt. The acquired real estate assets consist of a portfolio of properties used for office, retail and trade showroom space which aggregate approximately 5.4 million square feet and include the Merchandise Mart in Chicago. The transaction also includes the acquisition of Merchandise Mart Properties, Inc. which manages the properties and trade shows.

On April 20, 1998, the Company increased its interest from 5.6% to approximately 50% in 570 Lexington Avenue, a 49 story office building located in midtown Manhattan containing approximately 435,000 square feet. The Company purchased the additional interest for approximately \$37.2 million, including \$4.9 million of existing debt.

On May 1, 1998, the Company acquired an additional 40% interest in the Hotel Pennsylvania increasing its ownership to 80%. The Company purchased the additional 40% interest from Hotel Properties Limited (one of its joint venture partners) for approximately \$70 million, including \$48 million of existing debt.

Financings:

On April 15, 1998, the Company completed the sale of 10,000,000 common shares pursuant to an effective registration statement with net proceeds to the Company of approximately \$401 million. On April 29, 1998, the Company sold 1,132,420 common shares to a unit investment trust, which were valued for purposes of the trust at \$41.06 per share, resulting in net proceeds of approximately \$44 million.

On March 31, 1998, the Company had \$656,000,000 outstanding under its \$1,000,000,000 revolving credit facility at 6.53% (LIBOR plus .85%).

Also, in February 1998, the Company completed a \$160,000,000 refinancing of the Green Acres mall and prepaid the then existing \$118,000,000 debt on the property. The new 10-year debt matures in March 2008 and bears interest at 6.75%.

On April 23, 1998, the Cold Storage Companies completed a \$550,000,000 non-recourse ten-year loan secured by 58 of its warehouses. The loan bears interest at 6.89%. The net proceeds from the loan together with working capital were used to repay \$607,000,000 of bridge financing, which replaced high yield debt assumed at the date of acquisition.

The Company anticipates that cash from continuing operations will be adequate to fund business operations and the payment of dividends and distributions on an ongoing basis for more than the next twelve months; however, capital outlays for significant acquisitions may require funding from borrowings or equity offerings.

VORNADO REALTY TRUST

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits: The following exhibits are filed with this Quarterly Report on Form 10-Q.

10.37 Promissory Notes from Michael D. Fascitelli to Vornado Realty Trust.

27 Financial Data Schedule.

(b) Reports on Form 8-K

During the quarter ended March 31, 1998, Vornado Realty Trust filed the reports on Form 8-K described below:

Date of Report (Date of Earliest Event Reported) -----	Item Reported -----	Date Filed -----
January 26, 1998	Agreement to acquire the Merchandise Mart properties	January 29, 1998
January 29, 1998	Proposed spin-off of Vornado Operating, Inc.	January 30, 1998
November 18, 1997	Financial statements and pro forma financial information in connection with acquisition of One Penn Plaza, 150 East 59th Street and 640 Fifth Avenue	February 3, 1998
January 26, 1998	Financial statements and pro forma financial information in connection with the acquisition of the Merchandise Mart properties	February 9, 1998
November 18, 1997	Completion of One Penn Plaza acquisition	February 20, 1998
April 1, 1998	Completion of Merchandise Mart properties acquisition and financial statements and pro forma in connection therewith	April 8, 1998
April 1, 1998	Amendment to Merchandise Mart properties Form 8-K	April 9, 1998
April 9, 1998	Issuance and sale of 10,000,000 common shares	April 16, 1998
April 22, 1998	Increase in authorized shares and underwriting agreement for sale of 1,132,420 common shares	April 28, 1998

VORNADO REALTY TRUST

-----  
(Registrant)

Date: May 7, 1998

/s/ Irwin Goldberg

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IRWIN GOLDBERG  
Vice President - Chief Financial  
Officer and Chief Accounting Officer

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VORNADO REALTY TRUST

EXHIBIT INDEX

EXHIBIT NO. -----		PAGE NUMBER IN SEQUENTIAL NUMBERING -----
10.37	Promissory Notes from Michael D. Fascitelli to Vornado Realty Trust dated March 2, 1998 and April 30, 1998	20
27	Financial Data Schedule.	24

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## Section 2: EX-10.37 (PROMISSORY NOTE FROM MICHAEL D. FASCITELLI)

1

EXHIBIT NO. 10.37

### PROMISSORY NOTE

U.S.\$3,500,000.00

MARCH 2, 1998  
SADDLE BROOK, NEW JERSEY

FOR VALUE RECEIVED, the undersigned, MICHAEL D. FASCITELLI, an individual residing at 25 East End Avenue, New York, New York 10028 ("Payor"), hereby promise to pay to VORNADO REALTY TRUST, a Maryland real estate investment trust ("Payee"), or its order, at its principal offices located at Park 80 West, Plaza II, Saddle Brook, New Jersey 07663, the principal amount of THREE MILLION FIVE HUNDRED THOUSAND DOLLARS (\$3,500,000.00). Interest shall accrue on this Note at the rate of 5.47% from and after the date set forth above and accrued and unpaid interest shall be due and payable quarterly in arrears on the tenth day following the payment of the Payee's regular quarterly dividend to its stockholders (or if no such dividend is paid, at the end of the then current calendar quarter), until the principal amount of this Note and all accrued interest hereon shall have been paid in full.

Interest due on this Note shall be calculated on the basis of a 365-day year for the actual number of days elapsed during the applicable period. Any



payment required to be made hereunder on a day which is not a business day shall be due and owing on the first business day thereafter. Failure by the Payor to pay any sum due hereunder when due and payable which has not been cured by the Payor within 30 days following actual receipt of written notice given by the Payee shall constitute an event of default under this Note and the Payee may, at its sole option exercised by notice to the Payor, declare the entire outstanding principal balance hereof, together with all unpaid interest accrued hereon, to be immediately due and payable in full. Upon the occurrence of an event of default hereunder, the Payee may exercise all rights and remedies available to it hereunder or otherwise.

The principal amount hereof and all accrued and unpaid interest hereon shall be due and payable on the Maturity Date (as defined below). For purposes of this Note, the term "Maturity Date" shall mean the earliest of (i) the Date of Termination (as defined in that certain Employment Agreement, dated as of December 2, 1996, by and between Payor and Payee, as may be amended from time to time (the "Employment Agreement")), (ii) March 2, 2003 and (iii) the date of the final payment to Payor under the Convertible Units Agreement (as defined in the Employment Agreement). Notwithstanding the foregoing, the Payor shall be obligated to immediately repay the principal amount of this Note if, and only to the extent, the Aggregate Principal Amount (as defined below) shall at any time exceed one-half (1/2) of the product of (x) the number of outstanding Convertible Units (as defined in the Employment Agreement) and (y) \$21.75. For purposes of this Note, the term "Aggregate Principal Amount" shall mean, for any date, the aggregate principal amount outstanding hereunder on such date together with the principal amount outstanding on such date under each other note made by Payor in favor of Payee. The Payor shall have the right to prepay all or any portion of the amounts evidenced by this Note at any time without premium or penalty; provided, however, such prepayment shall include all interest accrued and unpaid hereunder as of the date of such prepayment.

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If this Note is collected by legal proceedings (including proceedings in the probate or bankruptcy courts) then all costs and expenses of collection or enforcement shall be added to the principal of, and be collectible as part of, this Note.

In case any one or more of the provisions of this Note shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

THIS NOTE IS MADE UNDER AND IS TO BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ITS CHOICE-OF-LAW RULES.

IN WITNESS WHEREOF, the Payor has caused this instrument to be duly executed on the date in the year first above written.

/s/ Michael D. Fascitelli

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Michael D. Fascitelli

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PROMISSORY NOTE

U.S.\$2,600,000.00

APRIL 30, 1998  
SADDLE BROOK, NEW JERSEY

FOR VALUE RECEIVED, the undersigned, MICHAEL D. FASCITELLI, an individual residing at 25 East End Avenue, New York, New York 10028 ("Payor"), hereby promise to pay to VORNADO REALTY TRUST, a Maryland real estate investment trust ("Payee"), or its order, at its principal offices located at Park 80 West, Plaza II, Saddle Brook, New Jersey 07663, the principal amount of TWO MILLION SIX HUNDRED THOUSAND DOLLARS (\$2,600,000.00). Interest shall accrue on this Note at the rate of 5.58% from and after the date set forth above and accrued and unpaid interest shall be due and payable quarterly in arrears on the tenth day following the payment of the Payee's regular quarterly dividend to its stockholders (or if no such dividend is paid, at the end of the then current calendar quarter), until the principal amount of this Note and all accrued interest hereon shall have been paid in full.

Interest due on this Note shall be calculated on the basis of a 365-day year for the actual number of days elapsed during the applicable period. Any

payment required to be made hereunder on a day which is not a business day shall be due and owing on the first business day thereafter. Failure by the Payor to pay any sum due hereunder when due and payable which has not been cured by the Payor within 30 days following actual receipt of written notice given by the Payee shall constitute an event of default under this Note and the Payee may, at its sole option exercised by notice to the Payor, declare the entire outstanding principal balance hereof, together with all unpaid interest accrued hereon, to be immediately due and payable in full. Upon the occurrence of an event of default hereunder, the Payee may exercise all rights and remedies available to it hereunder or otherwise.

The principal amount hereof and all accrued and unpaid interest hereon shall be due and payable on the Maturity Date (as defined below). For purposes of this Note, the term "Maturity Date" shall mean the earliest of (i) the Date of Termination (as defined in that certain Employment Agreement, dated as of December 2, 1996, by and between Payor and Payee, as may be amended from time to time (the "Employment Agreement")), (ii) April 30, 2003 and (iii) the date of the final payment to Payor under the Convertible Units Agreement (as defined in the Employment Agreement). Notwithstanding the foregoing, the Payor shall be obligated to immediately repay the principal amount of this Note if, and only to the extent, the Aggregate Principal Amount (as defined below) shall at any time exceed one-half (1/2) of the product of (x) the number of outstanding Convertible Units (as defined in the Employment Agreement) and (y) \$21.75. For purposes of this Note, the term "Aggregate Principal Amount" shall mean, for any date, the aggregate principal amount outstanding hereunder on such date together with the principal amount outstanding on such date under each other note made by Payor in favor of Payee. The Payor shall have the right to prepay all or any portion of the amounts evidenced by this Note at any time without premium or penalty; provided, however, such prepayment shall include all interest accrued and unpaid hereunder as of the date of such prepayment.

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If this Note is collected by legal proceedings (including proceedings in the probate or bankruptcy courts) then all costs and expenses of collection or enforcement shall be added to the principal of, and be collectible as part of, this Note.

In case any one or more of the provisions of this Note shall be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby.

THIS NOTE IS MADE UNDER AND IS TO BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO ITS CHOICE-OF-LAW RULES.

IN WITNESS WHEREOF, the Payor has caused this instrument to be duly executed on the date in the year first above written.

/s/ Michael D. Fascitelli  
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Michael D. Fascitelli

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### **Section 3: EX-27 (FINANCIAL DATA SCHEDULE)**

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE COMPANY'S UNAUDITED FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

-YEAR-END>	DEC-31-1998
-END>	MAR-31-1998
	236,657
	35,685
	23,712
	730
	0
-ASSETS>	0
&E>	2,126,130
	183,402
-ASSETS>	2,965,189
-LIABILITIES>	0
	1,385,132
-MANDATORY>	280,601
	0
	2,887
-SE>	1,034,773
-LIABILITY-AND-EQUITY>	2,965,189
	0
-REVENUES>	90,211
	0
-COSTS>	34,153
-EXPENSES>	15,313
-PROVISION>	0
-EXPENSE>	19,823
-PRETAX>	31,487
-TAX>	0
-CONTINUING>	31,487
	0
	0
	0
-INCOME>	26,064
-PRIMARY>	.36
-DILUTED>	.35

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