VORNADO OPERATING CO
Form 10-Q
August 05, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended JUNE 30, 2004

OR

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

For the transition period from__________________________ to_______________________

Commission File Number 001-14525

VORNADO OPERATING COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE	22-3569068
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
210 ROUTE 4 EAST, PARAMUS, NEW JERSEY	07652
(Address of principal executive offices)	(Zip Code)

(201) 587-7721
(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.

[X] Yes [ ] No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

[ ] Yes [X] No

As of July 23, 2004, there were 4,068,924 shares of the registrant's common stock, par value $0.01 per share, outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VORNADO OPERATING COMPANY

CONSOLIDATED BALANCE SHEETS

ASSETS

Cash and cash equivalents, including U.S. government obligations under repurchase agreements
of $1,070,000 and $650,000, respectively ....
Investments in and advances to AmeriCold Logistics ....
Interest receivable from AmeriCold Logistics ....
Prepaid expenses and other assets ....

Total assets ....

LIABILITIES AND STOCKHOLDERS' DEFICIT

Note, interest, and fees payable to Vornado Realty Trust ....
Due to Vornado Realty Trust ....
Accounts payable and accrued expenses ....

Total liabilities ....

Minority interest ....

COMMITMENTS AND CONTINGENCIES

STOCKHOLDERS' DEFICIT

Common stock: par value $0.01 per share; authorized, 40,000,000 shares; issued and
outstanding, 4,068,924 shares at each period end ....
Additional paid-in capital ....
Accumulated deficit ....

Accumulated other comprehensive loss ....

Total stockholders' deficit ....

Total liabilities and stockholders' deficit ....

See notes to consolidated financial statements.

VORNADO OPERATING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

THREE MONTHS ENDED SIX M

	JUNE 30,		
	2004	2003	2004
REVENUES			
Interest income	$ 1,605	$ 1,004	$ 2,75
EXPENSES			
General and administrative (including fees to Vornado Realty Trust of $82,500 in each three month period and $165,000 in each six month period)	599,168	256,964	900,64
	(597,563)	(255,960)	(897,88
Interest and debt expense to Vornado Realty Trust	(394,367)	(392,134)	(784,29
Income from notes receivable from AmeriCold Logistics	477,257	475,180	952,21
Loss before minority interest	(514,673)	(172,914)	(729,96
Minority interest	--	--	-
NET LOSS	$(514,673)	$(172,914)	$(729,96
Net loss per share -- basic and diluted	$ (0.13)	$ (0.04)	$ (0.1

See notes to consolidated financial statements.

VORNADO OPERATING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	SIX MONTHS ENDED
	2004
CASH FLOWS FROM OPERATING ACTIVITIES	
Net loss	$ (729,965)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:	
Recovery from repayments of loans to AmeriCold Logistics previously reduced by equity in losses	(504,359)
Changes in operating assets and liabilities:	
Prepaid expenses and other assets	130,002
Interest and fees payable on note from Vornado Realty Trust	784,295
Interest receivable from AmeriCold Logistics	2,366
Accounts payable and accrued expenses	178,008
Due to Vornado Realty Trust	5,060
Net cash (used in) provided by operating activities	(134,593)

CASH FLOWS FROM INVESTING ACTIVITIES		
Repayments of loans to AmeriCold Logistics	504,359	
Net increase in cash and cash equivalents	369,766	
Cash and cash equivalents at beginning of period	1,118,189	
Cash and cash equivalents at end of period	$ 1,487,955	$

See notes to consolidated financial statements.

VORNADO OPERATING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION

Vornado Operating Company, a Delaware corporation, holds its assets and conducts its business through Vornado Operating L.P., a Delaware limited partnership ("Company L.P."). The Company is the sole general partner of, and as of June 30, 2004, owned a 90.1% partnership interest in, Company L.P. All references to the "Company" refer to Vornado Operating Company and its subsidiaries, including Company L.P.

2. ABILITY TO CONTINUE AS A GOING CONCERN

Substantial doubt exists as to the Company's ability to continue as a going concern and its ability to discharge its liabilities in the normal course of business. The Company has incurred losses since its inception and, in the aggregate, its investments have not generated sufficient cash flow to pay all of the Company's expenses. The Company estimates that it has adequate borrowing capacity under its credit facility with Vornado Realty Trust ("Vornado") to meet its cash needs until December 31, 2004. However, the principal, interest and fees outstanding under the line of credit come due on such date. The Company currently has no external sources of financing except this facility.

The Company's other potential source of cash is its investment in AmeriCold Logistics. However, AmeriCold Logistics has also reported losses since inception and, at June 30, 2004, the Company's 60% share of AmeriCold Logistics' partners' deficit was $63,163,000, which includes $65,552,000 of deferred rent (rent recognized as expense but not paid in cash) to its landlord, the Vornado REIT/Crescent REIT Partnership (the "Landlord"). AmeriCold Logistics anticipates that in 2004 additional cash flow will be provided from a lease restructuring or some other option. There can be no assurance that AmeriCold Logistics will be successful in obtaining additional cash flow. Further, the Landlord is under no obligation to restructure the leases and there can be no assurance that it will do so. In the absence of obtaining additional cash flow, AmeriCold Logistics will not have the ability to distribute funds to the Company and, in turn, the Company will not have resources sufficient to repay its $26,179,000 loan from Vornado or the ability to continue as a going concern.

3. BASIS OF PRESENTATION

The consolidated balance sheet as of June 30, 2004, the consolidated statements of operations for the three and six months ended June 30, 2004 and 2003 and the consolidated statements of cash flows for the six months ended June

30, 2004 and 2003 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 cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. These consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 as filed with the Securities and Exchange Commission. The results of operations for the three and six months ended June 30, 2004 are not necessarily indicative of the operating results for the full year.

The accompanying consolidated financial statements include the accounts of the Company and Company L.P. All significant intercompany amounts have been eliminated. The Company's 60% interest in AmeriCold Logistics is currently accounted for under the equity method of accounting as Crescent Operating, Inc., the Company's partner in AmeriCold Logistics, has substantive participating rights. The investments in and advances to AmeriCold Logistics are recorded initially at cost and subsequently adjusted for the Company's share of comprehensive income or loss and cash distributions or principal repayments from AmeriCold Logistics. The interest earned on the advances to AmeriCold Logistics is recorded as a component of income or loss from AmeriCold Logistics. The Company does not record comprehensive losses in excess of the cost of its investments in and advances to AmeriCold Logistics, as the Company is not liable for the obligations of, or otherwise committed to provide additional financial support to, AmeriCold Logistics. The Company did not record its 60% share of AmeriCold Logistics' net losses for the year ended December 31, 2003 and the six months ended June 30, 2004 as the Company's investments in and advances to AmeriCold Logistics were fully absorbed by the Company's share of the comprehensive losses of AmeriCold Logistics at December 31, 2002. In addition, the Company's cumulative share of other comprehensive losses of AmeriCold Logistics not recorded at June 30, 2004 was $6,882,000. The Company will record its share of future comprehensive income from AmeriCold Logistics only for the portion of such income that exceeds its share of comprehensive losses not previously recorded. The Company's exposure to losses from AmeriCold Logistics is limited to its investments in and advances to AmeriCold Logistics. The Company's method of accounting for AmeriCold Logistics will change in the fourth quarter of 2004 (see Note 7).

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

4. INVESTMENTS IN AND ADVANCES TO AMERICOLD LOGISTICS

At June 30, 2004, $6,969,000 was outstanding under the Company's secured loans to AmeriCold Logistics, which mature on December 31, 2004. These loans are carried at zero in the accompanying consolidated balance sheets of the Company as they have been fully absorbed by the Company's share of comprehensive losses of AmeriCold Logistics. AmeriCold Logistics is required to make loan payments approximating $159,000 per month. The portions of the loan payments that represented the repayment of principal during the reporting periods covered herein are reflected as income from AmeriCold Logistics as this principal was previously reduced to zero by equity in losses of AmeriCold Logistics.

The following condensed balance sheet data represents 100% of AmeriCold Logistics, in which the Company holds a 60% interest.

(amounts in thousands)	June 30, 2004	December 31, 2003
Current assets	$ 122,375	$ 118,560
Non-current assets	46,013	47,478
	$ 168,388	$ 166,038
Current liabilities	$ 121,745	$ 115,556
Non-current liabilities ...	151,915	126,554
	$ 273,660	$ 242,110
Partners' deficit	$ (105,272)	$ (76,072)

The following condensed operating and cash flow data represents 100% of AmeriCold Logistics, in which the Company holds a 60% interest.

	Three Months Ended June 30,		Six Months Ended June 30,	
(amounts in thousands)	2004	2003	2004	2003
Revenues	$ 165,674	$ 154,158	$ 335,911	$ 313,
Costs applicable to revenues	(127,900)	(113,773)	(257,262)	(229,
Gross margin	37,774	40,385	78,649	83,
Depreciation and amortization	(2,747)	(2,456)	(5,578)	(4,
Rent	(41,708)	(41,799)	(82,268)	(81,
Other expenses, net	(10,275)	(8,032)	(20,003)	(16,
Net loss (1)	$ (16,956)	$ (11,902)	$ (29,200)	$ (18,
Cash flows (used in) provided by operating activities	$ (4,824)	$ 4,178	$ (1,882)	$ 6,

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(1) The Company did not record its 60% share of AmeriCold Logistics' net losses in any of the reporting periods covered herein as the Company's investments in and advances to AmeriCold Logistics were fully absorbed by

the Company's share of the comprehensive losses of AmeriCold Logistics at December 31, 2002.

VORNADO OPERATING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

The following represents the components of the Company's income from notes receivable from AmeriCold Logistics.

	Three Months Ended June 30,		Six Months Ended June 30,	
(amounts in thousands)	2004	2003	2004	2003
Interest on loans	$ 220	$ 252	$ 448	$ 507
Recovery from repayments of loans previously reduced by equity in losses	257	223	504	428
	$ 477	$ 475	$ 952	$ 935

During the six months ended June 30, 2004, AmeriCold Logistics exercised its right, pursuant to the terms of its leases with the Landlord, to defer the payment of rent. AmeriCold Logistics' deferred rent liability at June 30, 2004 is as follows:

(amounts in thousands)	Total
Deferred during the three months ended June 30, 2004.........	$ 16,085
Deferred during the three months ended March 31, 2004........	10,775
Aggregate deferral at December 31, 2003......................	82,394
	$ 109,254

On January 20, 2004, AmeriCold Logistics sold, without recourse, accounts receivable of $6,120,000 to a joint venture (the "Quarry Company") owned by Vornado (44%) and Crescent Real Estate Equities Company (56%), the owners of the Landlord, for $6,000,000 in cash. AmeriCold Logistics recognized a loss of $120,000 on the sale. The accounts receivable have been collected in full.

On March 29, 2004, AmeriCold Logistics sold, without recourse, accounts receivable of $4,080,000 to the Quarry Company for $4,000,000 in cash. AmeriCold Logistics recognized a loss of $80,000 on the sale. The accounts receivable have been collected in full.

On July 2, 2004, AmeriCold Logistics sold, without recourse, accounts receivable of $6,120,000 to the Quarry Company for $6,000,000 in cash. AmeriCold Logistics will recognize a loss of $120,000 on the sale in the three months ended September 30, 2004. AmeriCold Logistics also agreed to act as agent to collect the accounts receivable. The Company does not believe that any significant servicing asset or liability exists.

At December 31, 2002, the Company's investments in and advances to AmeriCold Logistics were fully absorbed by the Company's share of comprehensive losses of AmeriCold Logistics. AmeriCold Logistics has reported losses since its inception and, at June 30, 2004, the Company's share of AmeriCold Logistics' partners' deficit was $63,163,000, which includes $65,552,000 of deferred rent (rent recognized as expense but not paid in cash) to the Landlord. On March 2, 2004, AmeriCold Logistics and the Landlord extended the deferred rent period to December 31, 2005 from December 31, 2004. Based on the right to defer rent, the management of AmeriCold Logistics anticipates it will have sufficient cash flows to operate at least through June 30, 2005. AmeriCold Logistics anticipates that in 2004 additional cash flow will be provided from a lease restructuring or some other option. There can be no assurance that AmeriCold Logistics will be successful in obtaining additional cash flow. Further, the Landlord is under no obligation to restructure the leases and there can be no assurance that it will do so. In the absence of obtaining additional cash flow, AmeriCold Logistics will not have the ability to distribute funds to the Company and, in turn, the Company will not have resources sufficient to repay its $26,179,000 loan from Vornado or the ability to continue as a going concern.

5. COMMITMENTS AND CONTINGENCIES

The Company is from time to time involved in legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the outcome of such matters will not have a material effect on the Company's financial condition, results of operations or cash flows.

VORNADO OPERATING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (CONTINUED)
(UNAUDITED)

6. LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share.

(amounts in thousands, except share and per share amounts)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Numerator:				
Net loss	$ (515)	$ (173)	$ (730)	$ (378
Denominator:				
Weighted average shares outstanding ..	4,068,924	4,068,924	4,068,924	4,068,924
Net loss per share -- basic and diluted ...	$ (0.13)	$ (0.04)	$ (0.18)	$ (0.09

The Company's stock options (355,554 outstanding and exercisable at June 30, 2004) were not dilutive in the reporting periods as the average market prices of the Company's common stock did not exceed the exercise prices. The rights issued pursuant to the Company's Stockholder Protection Rights Plan were not dilutive in the reporting periods as the rights were not exercisable. The limited partnership units of Company L.P. not owned by the Company (447,017 at June 30, 2004) were not dilutive in the reporting periods as the Company reported net losses.

7. RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. FIN No. 46 required the consolidation of an entity by an enterprise if (i) that enterprise, known as a "primary beneficiary," has an interest that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both and (ii) the entity is a variable interest entity. An entity is a variable interest entity if (a) the total equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (b) the equity investors do not have the characteristics of a controlling financial interest in the entity. The initial determination of whether an entity is a variable interest entity shall be made as of the date at which an enterprise became involved with the entity and reconsidered as of the date that certain triggering events described in FIN No. 46 occur.

The Company previously disclosed that its investment in AmeriCold Logistics met the criteria for consolidation under FIN No. 46 and it would consolidate AmeriCold Logistics beginning July 1, 2003 by restating its prior period consolidated financial statements. However, in October 2003, FASB issued FASB Staff Position No. FIN 46-6, Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities. This position allowed public entities to defer the date for implementing FIN No. 46, except certain required disclosures, until the end of the first interim or annual period ending after December 15, 2003 if certain conditions apply. The Company concluded that it qualified for deferral and elected to implement FIN No. 46 on December 31, 2003. However, on December 24, 2003, FASB issued a revision to FIN No. 46 to, among other things, clarify some of the provisions of FIN No. 46. The revision allows a public entity which is a small business issuer, as defined in Regulation S-B, that has not previously applied FIN No. 46 to implement the revision no later than the end of the first interim or annual period ending after December 15, 2004. The Company meets the criteria of the small business issuer definition and has elected to implement the revision on December 31, 2004. The Company is evaluating its implementation alternatives (i.e., restatement of its previously issued consolidated financial statements or a cumulative effect adjustment). Had AmeriCold Logistics been consolidated as of June 30, 2004, the Company's accumulated deficit and accumulated other comprehensive loss would have increased to $130,391,000 and $15,363,000, respectively.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Stockholders and Board of Directors
Vornado Operating Company
Paramus, New Jersey

We have reviewed the accompanying condensed consolidated balance sheet of

Vornado Operating Company and subsidiaries (the "Company") as of June 30, 2004, and the related condensed consolidated statements of operations for the three and six month periods ended June 30, 2004 and 2003, and of cash flows for the six month periods ended June 30, 2004 and 2003. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

The accompanying condensed consolidated interim financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the condensed consolidated interim financial statements, certain conditions raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in such note.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Vornado Operating Company and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, stockholders' deficit, and cash flows for the year then ended (not presented herein); and in our report dated March 2, 2004, we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph concerning matters that raise substantial doubt about the Company's ability to continue as a going concern. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

DELOITTE & TOUCHE LLP

Parsippany, New Jersey
August 4, 2004

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. The Company's 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 "believes," "expects," "anticipates," "intends," "plans" or similar expressions in this Quarterly Report on Form 10-Q. These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond the Company's ability to control or predict. Factors that might cause such a material difference include, but are not limited to: (a) the substantial doubt about the Company's ability to continue as a going concern and its limited financial resources; (b) restrictions on the Company's business and future opportunities; (c) dependence upon Vornado Realty Trust ("Vornado"); (d) the substantial influence of the Company's controlling stockholders and conflicts of interest; (e) the bankruptcy of the Company's joint venture partner in AmeriCold Logistics, Crescent Operating, Inc. ("COPI"); (f) risks associated with potential investments and the ability to manage those investments; (g) competition; (h) dependence on key personnel; (i) potential anti-takeover effects of the Company's charter documents and Stockholder Protection Rights Plan and applicable law; (j) dependence on distributions from subsidiaries; (k) potential costs of compliance with environmental laws; (l) changes in the general economic climate; and (m) government regulations. See "Item 1. Business - Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

For these forward-looking statements, the Company claims 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 the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to the Company or any person acting on the Company's behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this paragraph. The Company does not undertake any obligation to release publicly any revisions to the forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

OVERVIEW

Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K (as amended by Amendment No. 1 to Form 10-K) for the year ended December 31, 2003.

ABILITY TO CONTINUE AS A GOING CONCERN

Substantial doubt exists as to the Company's ability to continue as a going concern and its ability to discharge its liabilities in the normal course of business. The Company has incurred losses since its inception and, in the aggregate, its investments have not generated sufficient cash flow to pay all of the Company's expenses. The Company estimates that it has adequate borrowing capacity under its credit facility with Vornado to meet its cash needs until December 31, 2004. However, the principal, interest and fees outstanding under the line of credit come due on such date. The Company currently has no external sources of financing except this facility.

The Company's other potential source of cash is its investment in AmeriCold Logistics. However, AmeriCold Logistics has also reported losses since inception and, at June 30, 2004, the Company's 60% share of AmeriCold Logistics' partners' deficit was $63,163,000, which includes $65,552,000 of deferred rent (rent recognized as expense but not paid in cash) to its landlord, the Vornado REIT/Crescent REIT Partnership (the "Landlord"). AmeriCold Logistics anticipates that in 2004 additional cash flow will be provided from a lease restructuring or some other option. There can be no assurance that AmeriCold Logistics will be successful in obtaining additional cash flow. Further, the Landlord is under no obligation to restructure the leases and there can be no assurance that it will do so. In the absence of obtaining additional cash flow, AmeriCold Logistics will not have the ability to distribute funds to the Company and, in turn, the Company will not have resources sufficient to repay its $26,179,000 loan from Vornado or the ability to continue as a going concern.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Set forth below is a summary of the accounting policies that management believes are critical to the preparation of the consolidated financial statements. The summary should be read in conjunction with the more complete discussion of the Company's significant accounting policies included in Note 3 to the consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. The Company's critical accounting policies have not changed during the six months ended June 30, 2004.

Investments in and Advances to AmeriCold Logistics

The Company's 60% interest in AmeriCold Logistics is currently accounted for under the equity method of accounting as COPI, the Company's partner in AmeriCold Logistics, has substantive participating rights. The investments in and advances to AmeriCold Logistics are recorded initially at cost and subsequently adjusted for the Company's share of comprehensive income or loss and cash distributions or principal repayments from AmeriCold Logistics. The interest earned on the advances to AmeriCold Logistics is recorded as a component of income or loss from AmeriCold Logistics. The Company does not record comprehensive losses in excess of the cost of its investments in and advances to AmeriCold Logistics, as the Company is not liable for the obligations of, or otherwise committed to provide additional financial support to, AmeriCold Logistics. The Company did not record its 60% share of AmeriCold Logistics' net losses for the year ended December 31, 2003 and the six months ended June 30, 2004 as the Company's investments in and advances to AmeriCold Logistics were fully absorbed by the Company's share of the comprehensive losses of AmeriCold Logistics at December 31, 2002. In addition, the Company's cumulative share of other comprehensive losses of AmeriCold Logistics not recorded at June 30, 2004 was $6,882,000. The Company will record its share of future comprehensive income from AmeriCold Logistics only for the portion of such income that exceeds its share of comprehensive losses not previously recorded. The Company's exposure to losses from AmeriCold Logistics is limited to its investments in and advances to AmeriCold Logistics. The Company's method of accounting for AmeriCold Logistics will change in the fourth quarter of 2004 (see "Recently Issued Accounting Standards" below).

Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation ("FIN") No. 46, Consolidation of Variable Interest Entities, an interpretation of ARB No. 51. FIN No. 46 required the consolidation of an entity by an enterprise if (i) that enterprise, known as a "primary beneficiary," has an interest that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both and (ii) the entity is a variable interest entity. An entity is a variable interest entity if (a) the total equity investment at risk in the entity is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or (b) the equity investors do not have the characteristics of a controlling financial interest in the entity. The initial determination of whether an entity is a variable interest entity shall be made as of the date at which an enterprise became involved with the entity and reconsidered as of the date that certain triggering events described in FIN No. 46 occur.

The Company previously disclosed that its investment in AmeriCold Logistics met the criteria for consolidation under FIN No. 46 and it would consolidate AmeriCold Logistics beginning July 1, 2003 by restating its prior period consolidated financial statements. However, in October 2003, FASB issued FASB Staff Position No. FIN 46-6, Effective Date of FASB Interpretation No. 46, Consolidation of Variable Interest Entities. This position allowed public entities to defer the date for implementing FIN No. 46, except certain required disclosures, until the end of the first interim or annual period ending after December 15, 2003 if certain conditions apply. The Company concluded that it qualified for deferral and elected to implement FIN No. 46 on December 31, 2003. However, on December 24, 2003, FASB issued a revision to FIN No. 46 to, among other things, clarify some of the provisions of FIN No. 46. The revision allows a public entity which is a small business issuer, as defined in Regulation S-B, that has not previously applied FIN No. 46 to implement the revision no later than the end of the first interim or annual period ending after December 15, 2004. The Company meets the criteria of the small business issuer definition and has elected to implement the revision on December 31, 2004. The Company is evaluating its implementation alternatives (i.e., restatement of its previously issued consolidated financial statements or a cumulative effect adjustment). Had AmeriCold Logistics been consolidated as of June 30, 2004, the Company's accumulated deficit and accumulated other comprehensive loss would have increased to $130,391,000 and $15,363,000, respectively.

RESULTS OF OPERATIONS

The Company had a net loss of $515,000 for the three months ended June 30, 2004, compared to $173,000 for the three months ended June 30, 2003, an increase of $342,000, and a net loss of $730,000 for the six months ended June 30, 2004, compared to $378,000 for the six months ended June 30, 2003, an increase of $352,000.

General and administrative expenses were $599,000 for the three months ended June 30, 2004, compared to $257,000 for the three months ended June 30, 2003, an increase of $342,000. General and administrative expenses were $901,000 for the six months ended June 30, 2004, compared to $535,000 for the six months ended June 30, 2003, an increase of $366,000. These increases primarily resulted from (i) higher professional fees as the Company reviews its business alternatives and (ii) higher franchise taxes.

Interest and debt expense to Vornado Realty Trust was $394,000 for the three months ended June 30, 2004, compared to $392,000 for the three months ended June 30, 2003, an increase of $2,000, and $784,000 for the six months ended June 30, 2004, compared to $780,000 for the six months ended June 30, 2003, an increase of $4,000. The higher average balances outstanding in the current year periods were offset by lower average LIBOR rates under the Revolving Credit Agreement with Vornado.

The following represents the components of the Company's income from notes receivable from AmeriCold Logistics.

	Three Months Ended June 30,	Six Months Ended June 30,

(amounts in thousands)	2004	2003	2004	2003
Interest on loans..........................	$ 220	$ 252	$ 448	$ 507
Recovery from repayments of loans previously reduced by equity in losses....	257	223	504	428
	$ 477	$ 475	$ 952	$ 935

The Company did not record $10,174,000 and $17,520,000, its 60% share of AmeriCold Logistics' net losses of $16,956,000 and $29,200,000, respectively, for the three and six months ended June 30, 2004, or $7,141,000 and $11,251,000, its 60% share of AmeriCold Logistics' net losses of $11,902,000 and $18,752,000, respectively, for the three and six months ended June 30, 2003, as the Company's investments in and advances to AmeriCold Logistics were fully absorbed by the Company's share of the comprehensive losses of AmeriCold Logistics at December 31, 2002 and as the Company is not liable for the obligations of, or otherwise committed to provide additional financial support to, AmeriCold Logistics. The decreases in interest earned on the Company's loans to AmeriCold Logistics are attributable to lower average loans outstanding in the current year periods. The Company recognized loan repayments from AmeriCold Logistics that were made during the reporting periods as income as these loans were previously reduced by equity in losses of AmeriCold Logistics.

To keep the Company's stockholders knowledgeable about the Company's sole investment, a discussion of AmeriCold Logistics' results of operations is included below. The amounts discussed below in "AmeriCold Logistics' Results of Operations for the Three and Six Months Ended June 30, 2004 and 2003" exclude income related to the Company's loans with AmeriCold Logistics.

AmeriCold Logistics' Results of Operations for the Three and Six Months Ended June 30, 2004 and 2003

The following is a discussion of the results of operations of AmeriCold Logistics, the Company's investee in the temperature controlled logistics business (see the Company's Annual Report on Form 10-K for the year ended December 31, 2003 for a discussion of this business and see Note 4 to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q for condensed balance sheet and operating data of AmeriCold Logistics). The data below represents 100% of this business, in which the Company holds a 60% interest. For the purpose of the discussion below, "Leased Operations" refer to operations at warehouses leased by AmeriCold Logistics and "Other Operations" refer to (i) warehouses managed by AmeriCold Logistics for the accounts of customers ("Managed Warehouses") and (ii) Transportation Management Services, which includes freight routing, dispatching, freight rate negotiation, backhaul coordination, and distribution channel assessments.

Certain prior period amounts in this discussion were reclassified to conform to the current period presentation.

Revenues were $165,674,000 for the three months ended June 30, 2004, compared to $154,158,000 for the three months ended June 30, 2003, an increase of $11,516,000, and $335,911,000 for the six months ended June 30, 2004, compared to $313,880,000 for the six months ended June 30, 2003, an increase of $22,031,000. Revenues from Leased Operations were

$102,644,000 for the three months ended June 30, 2004, compared to $102,507,000 for the three months ended June 30, 2003, an increase of $137,000, and $207,293,000 for the six months ended June 30, 2004, compared to $207,587,000 for the six months ended June 30, 2003, a decrease of $294,000. Revenues from Other Operations were $63,030,000 for the three months ended June 30, 2004, compared to $51,651,000 for the three months ended June 30, 2003, an increase of $11,379,000, and $128,618,000 for the six months ended June 30, 2004, compared to $106,293,000 for the six months ended June 30, 2003, an increase of $22,325,000.

The increase in revenue from Other Operations was due to new Managed Warehouse contracts that commenced after the first quarter of 2003 and additional Transportation Management Services business in 2004 from both new and existing customers.

The gross margin for Leased Operations was $34,548,000, or 33.7%, for the three months ended June 30, 2004, compared to $36,493,000, or 35.6%, for the three months ended June 30, 2003, a decrease of $1,945,000, and $71,831,000, or 34.7%, for the six months ended June 30, 2004, compared to $76,216,000, or 36.7%, for the six months ended June 30, 2003, a decrease of $4,385,000. These decreases were attributable to (i) start up costs for existing customers at new locations and (ii) a change in revenue mix as higher margin storage revenues declined and lower margin handling revenues increased.

Operating income from Other Operations was $3,226,000 for the three months ended June 30, 2004, compared to $3,892,000 for the three months ended June 30, 2003, a decrease of $666,000, and $6,818,000 for the six months ended June 30, 2004, compared to $7,686,000 for the six months ended June 30, 2003, a decrease of $868,000. These decreases were the result of lower margins for the Transportation Management Services business due to unused truck capacity and increased costs as a result of new legislation reducing the maximum hours that truck drivers are permitted to drive in a day, partially offset by increased margin from new and existing Managed Warehouse customers.

Rent expense was $41,708,000 for the three months ended June 30, 2004, compared to $41,799,000 for the three months ended June 30, 2003, a decrease of $91,000, and $82,268,000 for the six months ended June 30, 2004, compared to $81,304,000 for the six months ended June 30, 2003, an increase of $964,000.

General and administrative expenses were $8,481,000 for the three months ended June 30, 2004, compared to $7,759,000 for the three months ended June 30, 2003, an increase of $722,000, and $17,316,000 for the six months ended June 30, 2004, compared to $15,819,000 for the six months ended June 30, 2003, an increase of $1,497,000. These increases were primarily due to higher professional fees, payroll and travel expenses.

Depreciation and amortization expense was $2,747,000 for the three months ended June 30, 2004, compared to $2,456,000 for the three months ended June 30, 2003, an increase of $291,000, and $5,578,000 for the six months ended June 30, 2004, compared to $4,858,000 for the six months ended June 30, 2003, an increase of $720,000. These increases were primarily attributable to depreciation on additional machinery and equipment.

Interest expense was $1,175,000 for the three months ended June 30, 2004, compared to $823,000 for the three months ended June 30, 2003, an increase of $352,000, and $2,231,000 for the six months ended June 30, 2004, compared to $1,654,000 for the six months ended June 30, 2003, an increase of $577,000. These increases resulted from higher average deferred rent balances, partially offset by lower average borrowings outstanding.

Other expense, net, was $619,000 for the three months ended June 30, 2004, compared to other income, net, of $550,000 for the three months ended June 30, 2003, a decrease of $1,169,000. Other expense, net, was $456,000 for the six months ended June 30, 2004, compared to other income, net, of $981,000 for the six months ended June 30, 2003, a decrease of $1,437,000. These decreases resulted primarily from taxes on earnings from AmeriCold Logistics' warehouse in Alberta, Canada and foreign currency translation losses in the current year, compared to foreign currency gains in the prior year.

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LIQUIDITY AND CAPITAL RESOURCES

Substantial doubt exists as to the Company's ability to continue as a going concern and its ability to discharge its liabilities in the normal course of business. The Company has incurred losses since its inception and, in the aggregate, its investments have not generated sufficient cash flow to pay all of the Company's expenses. The Company estimates that it has adequate borrowing capacity under its credit facility with Vornado to meet its cash needs until December 31, 2004. However, the principal, interest and fees outstanding under the line of credit come due on such date. The Company currently has no external sources of financing except this facility.

The Company's other potential source of cash is its investment in AmeriCold Logistics. However, AmeriCold Logistics has also reported losses since inception and, at June 30, 2004, the Company's 60% share of AmeriCold Logistics' partners' deficit was $63,163,000, which includes $65,552,000 of deferred rent (rent recognized as expense but not paid in cash) to its Landlord. AmeriCold Logistics anticipates that in 2004 additional cash flow will be provided from a lease restructuring or some other option. There can be no assurance that AmeriCold Logistics will be successful in obtaining additional cash flow. Further, the Landlord is under no obligation to restructure the leases and there can be no assurance that it will do so. In the absence of obtaining additional cash flow, AmeriCold Logistics will not have the ability to distribute funds to the Company and in turn, the Company will not have resources sufficient to repay its $26,179,000 loan from Vornado or the ability to continue as a going concern.

The Company has a $75,000,000 unsecured Revolving Credit Agreement with Vornado which expires on December 31, 2004. Borrowings under this facility bear interest at LIBOR plus 3% (4.37% at June 30, 2004). The Company pays Vornado a commitment fee equal to 1% per annum on the average daily unused portion of the facility pursuant thereto; for the six months ended June 30, 2004 and 2003, the Company recorded commitment fees under the facility of $249,000 and $256,000, respectively. Amounts may be borrowed under the Revolving Credit Agreement, repaid and reborrowed from time to time on a revolving basis (so long as the principal amount outstanding at any time does not exceed $75,000,000). Principal payments are not required under the Revolving Credit Agreement during its term. The Revolving Credit Agreement prohibits the Company from incurring indebtedness to third parties (other than certain purchase money debt and certain other exceptions) and prohibits the Company from paying any dividends. The Company currently has no external sources of financing except this facility. At June 30, 2004, $2,375,000 of interest and commitment fees were unpaid, which reduces the availability under the Revolving Credit Agreement to $48,821,000. After December 31, 2004, balances outstanding under this facility will bear interest at LIBOR plus 6%. See the preceeding two paragraphs regarding the substantial doubt as to the Company's ability to continue as a going concern and discharge this liability in the normal course of business.

At June 30, 2004, $6,969,000 was outstanding under the Company's secured loans to AmeriCold Logistics, which mature on December 31, 2004. These loans are carried at zero in the Company's consolidated balance sheets as they have been fully absorbed by the Company's share of comprehensive losses of AmeriCold Logistics. AmeriCold Logistics is required to make loan payments approximating $159,000 per month. The portions of the loan payments that represented the repayment of principal during the reporting periods covered herein are reflected as income from AmeriCold Logistics as this principal was previously reduced to zero by equity in losses of AmeriCold Logistics.

During the six months ended June 30, 2004, AmeriCold Logistics exercised its right, pursuant to the terms of its leases with the Landlord, to defer the payment of rent. AmeriCold Logistics' deferred rent liability at June 30, 2004 is as follows:

(amounts in thousands)	Total
Deferred during the three months ended June 30, 2004.........	$ 16,085
Deferred during the three months ended March 31, 2004........	10,775
Aggregate deferral at December 31, 2003......................	82,394
	$ 109,254

On January 20, 2004, AmeriCold Logistics sold, without recourse, accounts receivable of $6,120,000 to a joint venture (the "Quarry Company") owned by Vornado (44%) and Crescent Real Estate Equities Company (56%), the owners of the Landlord, for $6,000,000 in cash. AmeriCold Logistics recognized a loss of $120,000 on the sale. The accounts receivable have been collected in full.

On March 29, 2004, AmeriCold Logistics sold, without recourse, accounts receivable of $4,080,000 to the Quarry Company for $4,000,000 in cash. AmeriCold Logistics recognized a loss of $80,000 on the sale. The accounts receivable have been collected in full.

On July 2, 2004, AmeriCold Logistics sold, without recourse, accounts receivable of $6,120,000 to the Quarry Company for $6,000,000 in cash. AmeriCold Logistics will recognize a loss of $120,000 on the sale in the three months ended September 30, 2004. AmeriCold Logistics also agreed to act as agent to collect the accounts receivable. The Company does not believe that any significant servicing asset or liability exists.

At December 31, 2002, the Company's investments in and advances to AmeriCold Logistics were fully absorbed by the Company's share of comprehensive losses of AmeriCold Logistics. AmeriCold Logistics has reported losses since its inception and, at June 30, 2004, the Company's share of AmeriCold Logistics' partners' deficit was $63,163,000, which includes $65,552,000 of deferred rent (rent recognized as expense but not paid in cash) to the Landlord. On March 2, 2004, AmeriCold Logistics and the Landlord extended the deferred rent period to December 31, 2005 from December 31, 2004. Based on the right to defer rent, the management of AmeriCold Logistics anticipates it will have sufficient cash flows to operate at least through June 30, 2005. AmeriCold Logistics anticipates that in 2004 additional cash flow will be provided from a lease restructuring or some other option. There can be no assurance that AmeriCold Logistics will be successful in obtaining additional cash flow. Further, the Landlord is under no obligation to restructure the leases and there can be no assurance that it will do so. In the absence of obtaining additional cash flow, AmeriCold Logistics will not have the ability to distribute funds to the Company and, in turn, the Company will not have resources sufficient to repay its $26,179,000 loan from Vornado or the ability to continue as a going concern.

Cash Flows for the Six Months Ended June 30, 2004

Net cash used in operating activities of $135,000 was comprised of (i) a net loss of $730,000 and (ii) the recovery from repayments on loans to AmeriCold Logistics previously reduced by equity in losses of $504,000, partially offset by (iii) the net change in operating assets and liabilities of $1,099,000.

Cash provided by investing activities of $504,000 resulted from repayments of loans to AmeriCold Logistics.

There were no cash flows from financing activities.

Cash Flows for the Six Months Ended June 30, 2003

Net cash provided by operating activities of $5,000 was comprised of (i) the net change in operating assets and liabilities of $811,000, partially offset by (ii) a net loss of $378,000 and (iii) the recovery from repayments on loans to AmeriCold Logistics previously reduced by equity in losses of $428,000.

Cash provided by investing activities of $428,000 resulted from repayments of loans to AmeriCold Logistics.

There were no cash flows from financing activities.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2003. There has been no material change to this information.

The fair value of the note payable to Vornado at June 30, 2004 was approximately $21,985,000. The fair value was estimated by discounting the future cash flows using current market rates available to the Company. Such fair value estimate is not necessarily indicative of the amount that would be paid upon liquidation of the Company's note payable.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is from time to time involved in legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the outcome of such matters will not have a material effect on the Company's financial condition, results of operations or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On May 27, 2004, the Company held its Annual Meeting of Stockholders. Two proposals were presented for approval for which the stockholders voted, in person or by proxy. The results of the voting are shown below.

1) The election of two nominees to serve on the Board of Directors for a term of three years or until their respective successors are duly elected and qualified.

NOMINEES	VOTES CAST FOR	VOTES WITHHELD
Steven Roth	3,225,444	265,194
Michael D. Fascitelli	3,225,460	265,178

Because of the nature of the election of directors, there were no abstentions or broker non-votes. In addition, directors whose term of office continued after the Annual Meeting were: Douglas H. Dittrick, Martin N. Rosen, Dr. Richard R. West and Russell B. Wight, Jr.

2) The ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors.

VOTES CAST FOR	VOTES CAST AGAINST	ABSTENTIONS
3,416,051	74,283	304

Because of the nature of the ratification of the Company's independent auditors, there were no broker non-votes.

ITEM 5. OTHER INFORMATION

On February 23, 2004, AmeriCold Logistics announced that Alec Covington resigned as President and Chief Executive Officer, effective March 31, 2004, to take an opportunity in an unrelated industry. A search to identify a successor is under way. In the interim, Mike O'Connell, who has been with AmeriCold Logistics for over ten years, has been promoted to be in charge of all operations and, until a successor is in place, will report to Anthony Cossentino, Chief Financial Officer.

On June 23, 2004, Crescent Operating, Inc. ("COPI"), the Company's joint venture partner in AmeriCold Logistics, announced that the United States Bankruptcy Court had entered an order confirming COPI's plan of reorganization. Consummation of this plan of reorganization will occur upon the sale of COPI's interest in AmeriCold Logistics, payment of COPI's creditors and distribution of shares of stock of Crescent Real Estate Equities Company to COPI's stockholders. COPI also announced that it believes the plan of reorganization will be consummated during the third or fourth quarter of 2004. It is uncertain what effect this proposed change in ownership will have on the operations and management of AmeriCold Logistics.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits required by Item 601 of Regulation S-K are filed herewith and are listed in the attached Exhibit Index.

(b) Reports on Form 8-K

During the three months ended June 30, 2004, Vornado Operating Company did not file any reports on Form 8-K.

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 OPERATING COMPANY

(Registrant)

Date: August 5, 2004

By: /s/ Joseph Macnow

Joseph Macnow, Executive Vice President and Chief Financial Officer (duly authorized officer and principal financial and accounting officer)

EXHIBIT INDEX

EXHIBIT NO.	
	The following is a list of all exhibits filed as part of this report.
15.1	Letter of Deloitte & Touche LLP regarding unaudited interim financial information
31.1	Rule 15d-14(a) certification of the Chief Executive Officer
31.2	Rule 15d-14(a) certification of the Chief Financial Officer

32.1	Section 1350 certification of the Chief Executive Officer
32.2	Section 1350 certification of the Chief Financial Officer