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VORNADO OPERATING CO
Form DEF 14A
April 30, 2002

SCHEDULE 14A
(RULE 14A-101)
INFORMATION REQUIRED IN PROXY STATEMENT
SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES
EXCHANGE ACT OF 1934

Filed by the Registrant [X]
Filed by a Party other than the Registrant []
Check the appropriate box:
 [] Preliminary Proxy Statement
 [X] Definitive Proxy Statement
 [] Definitive Additional Materials
 [] Soliciting Material under Rule 14a-12
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14a-6(e)(2))

VORNADO OPERATING COMPANY

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)
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(3) Filing Party:

(4) Date Filed:

VORNADO OPERATING COMPANY

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NOTICE OF
ANNUAL MEETING
OF STOCKHOLDERS

AND

PROXY STATEMENT
2 0 0 2

VORNADO OPERATING COMPANY
888 SEVENTH AVENUE
NEW YORK, NY 10019

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 29, 2002

To our Stockholders:

The Annual Meeting of Stockholders of Vornado Operating Company, a Delaware corporation (the "Company"), will be held at the Marriott Hotel, Interstate 80 and the Garden State Parkway, Saddle Brook, New Jersey 07663, on Wednesday, May 29, 2002, beginning at 10:00 a.m., local time, for the following purposes:

(1) The election of two persons to the Board of Directors of the Company, each for a term of three years; and

(2) The transaction of such other business as may properly come before the meeting or any adjournment or postponement thereof.

Pursuant to the By-laws of the Company, the Board of Directors of the Company has fixed the close of business on April 22, 2002, as the record date for determination of stockholders entitled to notice of and to vote at the meeting.

Your attention is called to the attached proxy statement. Whether or not you plan to attend the meeting, you are urged to complete and sign the enclosed proxy and return it in the accompanying envelope to which no postage need be affixed if mailed in the United States. If you attend the meeting in person, you may revoke your proxy and vote your own shares.

By Order of the Board of Directors,

Larry Portal
Corporate Secretary

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VORNADO OPERATING COMPANY

888 SEVENTH AVENUE
NEW YORK, NY 10019

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD MAY 29, 2002

The enclosed proxy is being solicited by the Board of Directors (the "Board") of Vornado Operating Company, a Delaware corporation (the "Company"), for use at the Annual Meeting of Stockholders of the Company to be held on Wednesday, May 29, 2002, beginning at 10:00 a.m., local time at the Marriott Hotel, Interstate 80 and the Garden State Parkway, Saddle Brook, New Jersey 07663 (the "Annual Meeting"). The proxy may be revoked by the stockholder at any time prior to its exercise at the Annual Meeting by executing and delivering to the Company at its principal office a written revocation or later dated proxy or by attending the Annual Meeting and voting in person. The cost of soliciting proxies will be borne by the Company. MacKenzie Partners, Inc. has been engaged by the Company to solicit proxies, at a fee not to exceed \$5,000. In addition to solicitation by mail and by telephone, arrangements may be made with brokerage houses and other custodians, nominees and fiduciaries to send proxies and proxy material to their principals and the Company may reimburse them for their expenses in so doing.

Only stockholders of record at the close of business on April 22, 2002 are entitled to notice of and to vote at the Annual Meeting. There were on such date 4,068,924 shares of common stock, par value \$.01 per share ("Common Stock"), of the Company outstanding, each entitled to one vote at the Annual Meeting.

The holders of a majority of the outstanding shares of Common Stock on April 22, 2002 present in person or by proxy and entitled to vote will constitute a quorum for the transaction of business at the Annual Meeting.

The principal executive office of the Company is located at 888 Seventh Avenue, New York, New York 10019. The accompanying notice of annual meeting of stockholders, this proxy statement and the enclosed proxy will be mailed on or about April 30, 2002 to the Company's stockholders of record as of the close of business on April 22, 2002.

ELECTION OF DIRECTORS

DIRECTORS STANDING FOR ELECTION

The Company's Board of Directors currently has six members. The Company's restated certificate of incorporation (the "Charter") provides that the directors of the Company are divided into three classes, as nearly equal in number as reasonably possible, as determined by the Board of Directors. The term of office of Class I directors will expire at the annual meeting of stockholders in 2002, the term of office of Class II directors will expire at the annual meeting of stockholders in 2003 and the term of office of Class III directors will expire at the annual meeting of stockholders in 2004, with each class of directors to hold office until their successors have been duly elected and qualified. At each annual meeting of stockholders, directors elected to succeed the directors whose terms expire at such annual meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders in the third year following the year of their election and until their successors have been duly elected and qualified.

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Unless otherwise directed in the proxy, each of the persons named in the enclosed proxy, or his substitute, will vote such proxy for the election of the two nominees listed below as directors for a three-year term and until their respective successors are duly elected and qualified. If any nominee at the time of election is unavailable to serve, a contingency not presently anticipated, it is intended that the persons named in the proxy, or their substitutes, will vote for an alternate nominee who will be designated by the Board. Proxies may be voted only for the nominees named or such alternates.

Under the By-laws, the affirmative vote of a plurality of all the votes cast at the Annual Meeting, assuming a quorum is present, is sufficient to elect a director. Under Delaware law, proxies marked "withhold authority" will be counted for the purpose of determining the presence of a quorum but such proxies will not be counted as votes cast in the election

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of directors and thus will have no effect on the result of the vote.

Broker non-votes, if any, will be included in determining whether a quorum is present, but will not be included in determining the number of votes cast in a Director's favor. A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote on a particular matter because the broker has not received instructions from the beneficial owner and does not have discretionary voting power with respect to that matter.

The following table sets forth the nominees (both of whom are presently members of the Board) and the other present members of the Board. With respect to each such person, the table sets forth the age, principal occupation, position presently held with the Company, and the year in which the person first became a director of the Company.

NAME	AGE	PRINCIPAL OCCUPATION AND PRESENT POSITION WITH THE COMPANY	YEAR TERM WILL EXPIRE	YEAR FIRST APPOINTED AS DIRECTOR
NOMINEES FOR ELECTION TO SERVE AS DIRECTORS UNTIL THE ANNUAL MEETING IN 2005				
Douglas H. Dittrick(1)	68	President and Chief Executive Officer of Douglas Communications Corporation II; Director of the Company	2002	1998
Richard West(1)(2)	64	Dean Emeritus, Leonard N. Stern School of Business, New York University; Director of the Company	2002	1998

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YEAR YEAR

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NAME	AGE	PRINCIPAL OCCUPATION AND PRESENT POSITION WITH THE COMPANY	TERM WILL EXPIRE	FIRST APPOINTED AS DIRECTOR
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PRESENT DIRECTORS ELECTED TO SERVE UNTIL THE ANNUAL MEETING IN 2004

Steven Roth(3)	60	Chairman of the Board and Chief Executive Officer of the Company; Managing General Partner of Interstate Properties ("Interstate")	2004	1998
Michael D. Fascitelli(3)	45	President of the Company	2004	1998

PRESENT DIRECTORS ELECTED TO SERVE UNTIL THE ANNUAL MEETING IN 2003

Martin Rosen(1) (2)	60	President of United Yarn Products Co., Inc.	2003	1998
Russell B. Wight, Jr. (3)	62	A general partner of Interstate	2003	1998

- (1) Member of the Audit Committee of the Board of Directors of the Company.
- (2) Member of the Compensation Committee of the Board of Directors of the Company.
- (3) Member of the Executive Committee of the Board of Directors of the Company. The Board does not have a Nominating Committee.

Mr. Dittrick has been the President and Chief Executive Officer of Douglas Communications Corporation II (cable television) since July 1986. Prior to July 1986, Mr. Dittrick was the President and Chief Executive Officer of Tribune Cable Communications, a cable television subsidiary of Tribune Company, which was sold in 1986. Mr. Dittrick is Chairman of the Board of Trustees of Ohio Wesleyan University, past President of Phi Gamma Delta, an international college fraternity, and the Chairman of the Board of Trustees of Valley Hospital.

Mr. West is Dean Emeritus of the Leonard N. Stern School of Business, New York University. He was a professor there from September 1984 until September 1995. He was also Dean from September 1984 until August 1993. Prior thereto, Mr. West was Dean of the Amos Tuck School of Business Administration at Dartmouth College. Mr. West is also a trustee of Vornado and a director of Alexander's, Bowne & Co., Inc., and various investment companies managed by Merrill Lynch investment managers.

Mr. Roth is Chairman of the Board and Chief Executive Officer of the Company. Mr. Roth has been Chairman of the Board and Chief Executive Officer of Vornado Realty Trust ("Vornado") since May 1989 and Chairman of the Executive Committee of the Board of Vornado since April 1988. Since 1968, he has been a general partner of Interstate and, more recently, he has been Managing General Partner. On March 2, 1995, he became Chief Executive Officer of Alexander's, Inc. ("Alexander's"). Mr. Roth is also a director of Alexander's and of Capital

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Trust, Inc.

Mr. Fascitelli is President of the Company. Mr. Fascitelli has been President and a trustee of Vornado, and a director of Alexander's since December 2, 1996. Mr. Fascitelli has been president of Alexander's since August 1, 2000. From December 1992 to December 1996, Mr. Fascitelli was a partner at Goldman, Sachs & Co. in charge of its real estate practice and was a vice president prior to 1992.

Mr. Rosen has been the President of United Yarn Products Co., Inc. (a manufacturer of synthetic fiber) since 1970. Mr. Rosen is a former director of First National Bank of North Jersey, and a former director of First Fidelity North, N.A. Mr. Rosen is a board member and past president of the YM-YWHA of North Jersey, a board member of the Daughters of Miriam Home for the Aged Foundation, and Chairman of the Counsel for the Arts at Massachusetts Institute of Technology.

Mr. Wight has been a general partner of Interstate since 1968. Mr. Wight is also a trustee of Vornado and a director of Alexander's.

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The Company is not aware of any family relationships among any directors or executive officers of the Company. Messrs. Roth and Wight are affiliated with each other as general partners of Interstate and in other businesses.

COMMITTEES OF THE BOARD OF DIRECTORS

The Board has an Executive Committee, an Audit Committee and a Compensation Committee.

The Board held five meetings during 2001. Each director attended at least 75% of the combined total of the meetings of the Board and all committees on which he served during 2001.

Executive Committee

The Executive Committee possesses and may exercise all the authority and powers of the Board in the management of the business and affairs of the Company, except those reserved to the Board by the Delaware General Corporation Law. The Executive Committee consists of three members, Messrs. Roth, Fascitelli and Wight. Mr. Roth is Chairman of the Executive Committee. The Executive Committee did not meet in 2001.

Audit Committee

The purposes of the Audit Committee are to assist the Board: (i) in its oversight of the Company's accounting and financial reporting principles and policies and internal controls and procedures; (ii) in its oversight of the Company's financial statements and the independent audit thereof; (iii) in selecting, evaluating and, where deemed appropriate, replacing the outside auditors; and (iv) in evaluating the independence of the outside auditors. The function of the Audit Committee is oversight. The management of the Company is responsible for the preparation, presentation and integrity of the Company's financial statements and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The outside auditors

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are responsible for planning and carrying out a proper audit and reviews, including review of the Company's quarterly financial statements prior to the filing of each quarterly report on Form 10-Q, and other procedures. The Board has adopted a written Audit Committee Charter which was attached as Annex A to the Company's proxy statement for its 2001 Annual Meeting. The Audit Committee, which held four meetings during 2001, consists of three members, Messrs. West, Rosen and Dittrick. Mr. Dittrick is the Chairman of the Audit Committee.

Compensation Committee

The Compensation Committee is responsible for establishing the terms of the compensation of the executive officers and the granting of awards under the Company's 1998 Omnibus Stock Plan (the "Omnibus Stock Plan"). The Committee consists of two members, Mr. West and Mr. Rosen. Mr. West is the Chairman of the Compensation Committee. The Compensation Committee did not meet in 2001.

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COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS
REPORT ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board is responsible for establishing the terms of the compensation of the executive officers and the granting of awards under the Company's Omnibus Stock Plan.

The only executive officer of the Company that received cash compensation from the Company is Emanuel Pearlman, the Company's former Chief Operating Officer. Mr. Pearlman's base salary was \$450,000 in accordance with his employment agreement. None of the Company's other executive officers has received compensation from or on behalf of the Company since its formation on October 30, 1997, except that in connection with the formation of the Company, options and Stock Appreciation Rights ("SARs") were granted to Vornado employees who held Vornado options, including executive officers of the Company.

The factors and criteria which the Compensation Committee utilizes in establishing the compensation of the Company's executive officers include an evaluation of the Company's overall financial and business performance, the officer's overall leadership and management and contributions by the officer to the Company's acquisitions or investments. The Compensation Committee also considers the compensation provided in the prior year and estimates of compensation to be provided by similar companies in the current year. The primary objective of the Compensation Committee in establishing the terms of the executive officers' compensation is to provide strong financial incentives for the executive officers to maximize stockholder value. The Compensation Committee believes that the best way to accomplish this objective is to grant substantial stock options on a fixed share basis without adjusting the number of shares granted to offset changes in the Company's stock price.

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Section 162(m) of the Internal Revenue Code, which was adopted in 1993, provides that, in general, publicly traded companies may not deduct, in any taxable year, compensation in excess of \$1,000,000 paid to the company's chief executive officer and four other most highly compensated executive officers as of the end of any fiscal year which is not "performance based", as defined in Section 162(m). Options granted under the Omnibus Stock Plan to date satisfy the performance based requirements under the final regulations issued with respect to Section 162(m).

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RICHARD WEST
MARTIN N. ROSEN

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PERFORMANCE GRAPH

The following graph compares the performance of the Company's Common Stock with the performance of the Russell 2000 Index and NASDAQ Industrial Index (a peer group index) for the period from October 16, 1998 (the initial day of trading of the Common Stock on the American Stock Exchange) through the end of 2001. The graph assumes that \$100 was invested on October 16, 1998 in each of the Company's Common Stock, the Russell 2000 Index and the NASDAQ Industrial Index, and that all dividends were reinvested. THERE CAN BE NO ASSURANCE THAT PERFORMANCE OF THE COMPANY'S SHARES WILL CONTINUE IN LINE WITH THE SAME OR SIMILAR TRENDS DEPICTED IN THE GRAPH BELOW.
[PERFORMANCE GRAPH]

	VORNADO OPERATING COMPANY	RUSSELL 2000 INDEX	NASDAQ IND INDEX
	-----	-----	-----
10/16/98	100.00	100.00	100.
12/31/98	101.00	123.00	129.
12/31/99	75.00	149.00	187.
12/31/00	26.00	146.00	156.
12/31/01	6.00	149.00	157.

	10/16/98	12/31/98	12/31/99	12/31/00	12/31/01
	-----	-----	-----	-----	-----
Vornado Operating Company	100	101	75	26	6
Russell 2000 Index	100	123	149	146	149
NASDAQ Industrial Index	100	129	187	156	157

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PRINCIPAL SECURITY HOLDERS

The following table sets forth the number of shares of Common Stock and units of limited partnership interest ("Units") in Vornado Operating L.P., a Delaware limited partnership (the "Company L.P."), beneficially owned by (i) each person who holds more than a 5% interest in the Company, (ii) directors of the Company, (iii) executive officers of the Company, and (iv) the directors and executive officers of the Company as a group. Unless otherwise noted, the address of all such persons is c/o Vornado Operating Company, 888 Seventh Avenue, New York, New York 10019.

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NAME OF BENEFICIAL OWNER	NUMBER OF SHARES OF COMMON STOCK AND UNITS BENEFICIALLY OWNED (1)	PERCENT OF ALL SHARES AND UNITS (1) (2)	PERCENT OF ALL SHARES AND UNITS (1) (2)
NAMED EXECUTIVE OFFICERS AND DIRECTORS			
Steven Roth(3) (4).....	776,545	8.0%	17.0%
Russell B. Wight, Jr.(3) (5)....	685,140	5.8%	15.1%
Michael D. Fascitelli.....	179,977	4.3%	3.9%
Douglas H. Dittrick.....	17,500	*	*
Martin N. Rosen.....	10,500	*	*
Richard West(6).....	21,550	*	*
Joseph Macnow.....	17,150	*	*
All executive officers and directors as a group (8 persons).....	745,275	17.3%	25.1%
OTHER BENEFICIAL OWNERS			
David Mandelbaum(3).....	663,099	5.3%	14.7%
Interstate(3).....	647,150	4.9%	14.3%
Gotham International Advisors, L.L.C., Gotham Holdings II, L.L.C. and Gotham Holdings III, L.L.C.(7).....	230,706	5.7%	5.1%

* Less than 1%.

(1) Unless otherwise indicated, each person is the direct owner of, and has sole voting power and sole investment power with respect to, such Common Stock. Numbers and percentages in the table are based on 4,068,924 shares of Common Stock and 447,017 Units outstanding as of April 22, 2002.

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(2) The total number of shares outstanding used in calculating this percentage assumes that all shares that each person has the right to acquire within 60 days pursuant to the exercise of options or upon the redemption of Units for shares are deemed to be outstanding, but are not deemed to be outstanding for the purpose of computing the ownership percentage of any other person.

(3) Interstate, a partnership of which Messrs. Roth, Wight and Mandelbaum are the general partners, owns 200,133 shares of Common Stock and also owns a 9.9% limited partnership interest in Company L.P. Interstate has the right to have its Units in Company L.P. redeemed by Company L.P. either (a) for cash in an amount equal to the fair market value, at the time of redemption, of 447,017 shares of Common Stock or (b) for 447,017 shares of Common Stock, in each case as selected by the Company and subject to customary anti-dilution provisions.

(4) Includes 1,720 shares owned by the Daryl and Steven Roth Foundation, over which Mr. Roth holds sole voting power and investment power. Does not include 1,800 shares owned by Mr. Roth's wife, as to which Mr. Roth disclaims any beneficial interest.

(5) Includes 3,340 shares owned by the Wight Foundation, over which Mr. Wight holds sole voting power and investment power.

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- (6) Mr. West and his wife own 10,150 shares jointly. Mr. West holds 900 shares in self-directed Keogh accounts.
- (7) Based on Schedule 13G filed on February 15, 2002, Gotham International Advisors, L.L.C., Gotham Holdings II, L.L.C. and Gotham Holdings III, L.L.C. have the sole power to vote or to direct the vote of, and the sole power to dispose or to direct the disposition of, 185,420 shares, 24,391 shares and 20,895 shares, respectively. The address of Gotham International Advisors, L.L.C., Gotham Holdings II, L.L.C. and Gotham Holdings III, L.L.C. is 110 East 42nd Street, 18th Floor, New York, New York 10017.

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EXECUTIVE COMPENSATION

The following table summarizes the compensation during each of the past three fiscal years for each of the executive officers of the Company whose total compensation aggregated \$100,000 or more in 2001 ("Covered Executives"). Only Emanuel Pearlman, the Company's former Chief Operating Officer, received cash compensation from the Company since its formation. None of the Company's other executive officers has received cash compensation from or on behalf of the Company since its formation. Although the Company did not pay a salary or other compensation to any executive officer other than to Mr. Pearlman (except that options or SARs have been granted to executive officers in prior years), the Company expects that it will pay salaries and other compensation to all of its executive officers when it begins conducting business operations material enough to warrant such compensation.

SUMMARY COMPENSATION TABLE

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION			LONG TERM COMPENSATION AWARDS	ALL OTHER COMPENSATION (\$)(2)
		SALARY (\$)	BONUS (\$)	OTHER (\$)	SECURITIES UNDERLYING OPTIONS (1)	
Steven Roth.....	2001	--	--	--	--	--
Chairman and	2000	--	--	--	--	--
Chief Executive Officer	1999	--	--	--	--	--
Michael Fascitelli.....	2001	--	--	--	--	--
President	2000	--	--	--	--	--
	1999	--	--	--	--	--
Emanuel Pearlman.....	2001	220,084	--	--	--	5,614
Chief Operating Officer (3)	2000	156,108	175,000	--	175,000	4,283
Joseph Macnow.....	2001	--	--	--	--	--
Executive Vice	2000	--	--	--	--	--
President -- Finance and Administration	1999	--	--	--	--	--
Patrick Hogan.....	2001	--	--	--	--	--
Vice President -- Chief Financial Officer (4)	2000	--	--	--	--	--

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- (1) Options and SARs are exercisable 34% twelve months after grant, and 33% after each of the following two twelve-month periods.

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- (2) Represents annual amounts of (i) employer-paid contributions to the Company's 401(k) retirement plan and (ii) Company-paid whole life insurance premiums. Employer contributions to the Company's 401(k) retirement plan become vested 100% after the completion of five years of eligible service. The whole life insurance policies provide coverage in an amount equal to the excess of the amount covered under the Company's non-discriminatory group term life insurance benefit for all full time employees (i.e., two times salary) over the benefit cap imposed by the term insurance carrier.
- (3) Mr. Pearlman's employment with the Company commenced on June 15, 2000 and terminated on June 15, 2001 upon his resignation.
- (4) Mr. Hogan joined the Company on March 2, 2001.

The following table summarizes all exercises of options during 2001, and the number and value of options held at December 31, 2001, by the Covered Executives.

AGGREGATED OPTION AND SAR EXERCISES IN 2001 AND
YEAR END OPTION AND SAR VALUES

NAME	SHARES		NUMBER OF	VALUE OF
	ACQUIRED	ON	SECURITIES	IN-THE-MONEY
	EXERCISE	EXERCISE	UNDERLYING	OPTIONS
		REALIZED	UNEXERCISED	AT 12/31/01
			AT 12/31/01	EXERCISABLE/ UNEXERCISABLE
			EXERCISABLE/ UNEXERCISABLE	EXERCISABLE/ UNEXERCISABLE
Steven Roth.....	--	\$--	205,000/0	\$0/0
Michael D. Fascitelli.....	--	--	200,000/0	0/0
Joseph Macnow.....	--	--	20,000/0	0/0
Emanuel Pearlman.....	--	--	59,500/115,500	0/0

EMPLOYMENT CONTRACTS

Emanuel Pearlman

Mr. Pearlman had an employment agreement which commenced on June 15, 2000 and terminated upon his resignation on June 15, 2001, pursuant to which he served as Chief Operating Officer of the Company. The employment agreement provided for an annual base salary of not less than \$300,000. In June 2000, Mr. Pearlman was granted

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options to purchase 175,000 Shares, exercisable at the current market price on the date of grant.

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The employment agreement provided that each party shall notify the other party, at least 90 days prior to June 15, 2003, of its intention either (i) to negotiate an extension thereof on at least the same terms, conditions and compensation as then in effect or (ii) that the employment period shall expire. The employment agreement would have been sooner terminated by either party by prior written notice of termination. If Mr. Pearlman's employment would have been terminated by the Company without cause or by Mr. Pearlman for a material breach of the agreement by the Company or upon a change of control, he would have received (A) his base salary accrued through the date of termination; (B) (i) a lump-sum payment equal to his then current base salary, if the termination would occur prior to June 15, 2001, or (ii) a lump-sum payment equal to one and one-half times his then current base salary, if the termination occurs on or after June 15, 2001; (C) continued provision of benefits to him and his family for 12 months following the termination; and (D) options granted to him would have become fully exercisable. The agreement further provided that if Mr. Pearlman's employment would have been terminated by the Company for cause or by him without a material breach by the Company, the payment of salary would have ceased upon the date of termination.

COMPENSATION OF DIRECTORS

Messrs. Roth, Fascitelli and Wight each receive from the Company compensation at a rate of \$25,000 per year for serving as a director of the Company and Messrs. West, Dittrick and Rosen each receive from the Company compensation at a rate of \$50,000 per year for serving as a director of the Company.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

General

On October 16, 1998 Vornado Realty L.P. (the "Operating Partnership"), a subsidiary of Vornado, made a distribu-

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tion (the "Distribution") of one share of Common Stock of the Company for each 20 units of limited partnership interest of the Operating Partnership (including the units owned by Vornado) held of record as of the close of business on October 9, 1998 (the "Record Date"), and Vornado in turn made a distribution of the Common Stock it received to the holders of its common shares of beneficial interest.

The Company was formed on October 30, 1997, as a wholly owned subsidiary of Vornado. In order to maintain its status as a real estate investment trust ("REIT") for federal income tax purposes, Vornado is required to focus principally on investments in real estate assets. Accordingly, Vornado is prevented from owning certain assets and conducting certain activities that would be inconsistent with its status as a REIT. The Company was formed to own assets that Vornado could not itself own and conduct activities that Vornado could not itself conduct. The Company functions principally as an operating company, in contrast to Vornado's principal focus on investments in real estate assets. The Company is able to do so because it is taxable as a regular "C" corporation rather than as a REIT.

The Company operates businesses conducted at properties it leases from Vornado, as contemplated by the agreement between the Company and Vornado, as described under "Vornado Agreement" below. The Company expects to rely on Vornado to identify business opportunities and currently expects that those opportunities will relate in some manner to Vornado and its real estate

investments rather than to unrelated businesses.

Capital Contribution and Revolving Credit Agreement

As part of its formation, the Company obtained a \$75,000,000 unsecured five-year revolving credit facility from Vornado ("Revolving Credit Agreement") which expires on December 31, 2004. Borrowings under the Revolving Credit Agreement bear interest at LIBOR plus 3% (4.87% at December 31, 2001). The Company pays Vornado a commitment fee equal to 1% per annum on the average daily unused portion of the facility. For the year ended December 31, 2001, the Company paid Vornado \$485,000.

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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 dividends. Debt under the Revolving Credit Agreement is fully recourse against the Company. At December 31, 2001, \$31,424,000 was outstanding under the Revolving Credit Agreement, which was the largest outstanding balance under the agreement during the last fiscal year.

Vornado Agreement

The Company and Vornado have entered into an agreement (the "Vornado Agreement") pursuant to which, among other things, (a) Vornado will under certain circumstances offer the Company an opportunity to become the lessee of certain real property owned now or in the future by Vornado (under mutually satisfactory lease terms) and (b) the Company will not make any real estate investment or other REIT-Qualified Investment (as defined below) unless it first offers Vornado the opportunity to make such investment and Vornado has rejected that opportunity.

More specifically, the Vornado Agreement requires, subject to certain terms, that Vornado provide the Company with an opportunity (a "Tenant Opportunity") to become the lessee of any real property owned now or in the future by Vornado if Vornado determines in its sole discretion that, consistent with Vornado's status as a REIT, it is required to enter into a "master" lease arrangement with respect to such property and that the Company is qualified to act as lessee thereof. In general, a master lease arrangement is an arrangement pursuant to which an entire property or project (or a group of related properties or projects) is leased to a single lessee. Under the Vornado Agreement, the Company and Vornado will negotiate with each other on an exclusive basis for 30 days regarding the terms and conditions of the

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lease in respect of each Tenant Opportunity. If a mutually satisfactory agreement cannot be reached within the 30-day period, Vornado may for a period of one year thereafter enter into a binding agreement with respect to such Tenant Opportunity with any third party on terms no more favorable to the third party than the terms last offered to the Company. If Vornado does not enter into a binding agreement with respect to such Tenant Opportunity within such one-year period, Vornado must again offer the Tenant Opportunity to the Company in accordance with the procedures specified above prior to offering such Tenant Opportunity to any other party.

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In addition, the Vornado Agreement prohibits the Company from making (i) any investment in real estate (including the provision of services related to real estate, real estate mortgages, real estate derivatives or entities that invest in the foregoing) or (ii) any other REIT-Qualified Investment, unless it has provided written notice to Vornado of the material terms and conditions of the investment opportunity and Vornado has determined not to pursue such investment either by providing written notice to the Company rejecting the opportunity within 10 days from the date of receipt of notice of the opportunity or by allowing such 10-day period to lapse. As used herein, "REIT-Qualified Investment" means an investment, at least 95% of the gross income from which would qualify under the 95% gross income test set forth in Section 856(c)(2) of the Internal Revenue Code of 1986, as amended (the "Code") (or could be structured to so qualify), and the ownership of which would not cause Vornado to violate the asset limitations set forth in Section 856(c)(4) of the Code (or could be structured not to cause Vornado to violate the Section 856(c)(4) limitations); provided, however, that "REIT-Qualified Investment" does not include an investment in government securities, cash or cash items (as defined for purposes of Section 856(c)(4) of the Code), money market funds, certificates of deposit, commercial paper having a maturity of not more than 90 days, bankers' acceptances or the property transferred to the Company by the Operating Partnership. The Vornado Agreement also requires the

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Company to assist Vornado in structuring and consummating any such investment which Vornado elects to pursue, on terms determined by Vornado. In addition, the Company has agreed to notify Vornado of, and make available to Vornado, investment opportunities developed by the Company or of which the Company becomes aware but is unable or unwilling to pursue.

Under the Vornado Agreement, Vornado provides the Company with certain administrative, corporate, accounting, financial, insurance, legal, tax, data processing, human resources and operational services. Also, Vornado makes available to the Company, at Vornado's offices, space for the Company's principal corporate office. For these services, the Company compensates Vornado in an amount determined in good faith by Vornado as the amount an unaffiliated third party would charge the Company for comparable services and reimburses Vornado for certain costs incurred and paid to third parties on behalf of the Company. For the year ended December 31, 2001, approximately \$371,000 for such services was charged pursuant to the Vornado Agreement.

Vornado and the Company each have the right to terminate the Vornado Agreement if the other party is in material default of the Vornado Agreement or upon 90 days written notice to the other party at any time after December 31, 2003. In addition, Vornado has the right to terminate the Vornado Agreement upon a change in control of the Company.

The Company's Charter specifies that one of its corporate purposes is to perform the Vornado Agreement and, for so long as the Vornado Agreement remains in effect, prohibits the Company from making any real estate investment or other REIT-Qualified Investment without first offering the opportunity to Vornado in the manner specified in the Vornado Agreement.

The Company's Management

Messrs. Roth, Fascitelli, West and Wight are directors of the Company and trustees of Vornado. Mr. Roth is Chairman

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of the Board and Chief Executive Officer of the Company and of Vornado, Mr. Fascitelli is President of the Company and of Vornado, and certain other members of the Company's senior management hold corresponding positions with Vornado.

Vornado Operating L.P. and the Interstate Exchange

The Company holds its assets and conducts its business through Company L.P. The Company is the sole general partner of, and as of December 31, 2001 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.

Interstate and its three partners -- Steven Roth (Chairman of the Board and Chief Executive Officer of Vornado and the Company), David Mandelbaum (a trustee of Vornado) and Russell B. Wight, Jr. (a trustee of Vornado and a director of the Company) -- beneficially owned, in the aggregate, 17.0% of the Company's Common Stock immediately after the Distribution (excluding shares underlying SARs and options held by Messrs. Roth and Wight for this purpose). Under applicable provisions of the Code, Vornado will not continue to be treated as a REIT unless it satisfies, among other things, requirements relating to the sources of its gross income. Rents received or accrued by Vornado from the Company will not be treated as qualifying rent for purposes of these requirements if Vornado owns, either directly or under the applicable attribution rules, 10% or more of the Common Stock of the Company. Thus, in order to enable rents received or accrued by Vornado from the Company to be treated as qualifying rent for purposes of the REIT gross income requirements and to achieve certain other purposes, pursuant to the Exchange Agreement, dated as of October 16, 1998, between the Company and Interstate, (i) Interstate exchanged 447,017 shares of Common Stock for a 9.9% undivided interest in all of the Company's assets and (ii) Interstate and the Company contributed all of their interests in such assets to Company L.P. and in return Interstate received a 9.9% limited partnership interest and the Company received a 90.1% partnership

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interest therein. Interstate has the right to have its limited partnership interest in Company L.P. redeemed by Company L.P. either (a) for cash in an amount equal to the fair market value, at the time of redemption, of 447,017 shares of Common Stock or (b) for 447,017 shares of Common Stock, in each case as selected by the Company and subject to customary anti-dilution adjustments. Interstate and its partners owned approximately 14.4% of the shares of Vornado and approximately 7.9% of the Company's shares as of December 31, 2001.

The Temperature Controlled Logistics Business and Related Leases

In October 1997, partnerships (the "Vornado/Crescent Partnerships" or the "Landlord") in which Vornado has a 60% interest and Crescent Real Estate Equities Company ("Crescent") has a 40% interest acquired each of Americold Corporation ("Americold") and URS Logistics, Inc. ("URS"). In June 1998, Vornado/Crescent Partnerships acquired the assets of Freezer Services, Inc. and in July 1998 acquired the Carmar Group.

In March 1999, the Company and Crescent Operating Inc. ("Crescent Operating") formed a new partnership -- the "Vornado Crescent Logistics Operating Partnership" (which does business under the name "AmeriCold Logistics") that purchased all of the non-real estate assets of the Vornado/Crescent Partnerships for \$48,700,000, of which the Company's share was \$29,200,000. The purchase price was proposed by the Vornado/Crescent Partnerships (the Sellers). The Board of Directors of both the Company and Crescent Operating reviewed and approved the transaction after concluding that the price was fair market value at the time of the transaction. To fund its share of the purchase price, the Company utilized \$4,600,000 of cash, borrowed \$18,600,000 under the Revolving Credit Facility and paid the balance of

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\$6,000,000 in March 2000.

On February 14, 2002, Crescent Operating announced that it intends to file a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. Subject to confirmation of a plan

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of reorganization and shareholder approval, it had agreed to transfer its interest in Americold Logistics to an entity that will be owned by the shareholders of Crescent. It is uncertain at this time whether or when this plan will be approved and what effect, if any, this will have on the operation and management of Americold Logistics.

AmeriCold Logistics, headquartered in Atlanta, Georgia, has 5,900 employees and operates 100 temperature controlled warehouse facilities nationwide with an aggregate of approximately 525 million cubic feet of refrigerated, frozen and dry storage space. Of the 100 warehouses, AmeriCold Logistics leases 89 temperature controlled warehouses with an aggregate of approximately 445 million cubic feet from the Vornado/Crescent Partnership, and manages 11 additional warehouses containing approximately 80 million cubic feet of space. AmeriCold Logistics provides the frozen food industry with refrigerated warehousing and transportation management services. Refrigerated warehouses are comprised of production and distribution facilities. Production facilities typically serve one or a small number of customers, generally food processors, located nearby. These customers store large quantities of processed or partially processed products in the facility until they are shipped to the next stage of production or distribution. Distribution facilities primarily warehouse a wide variety of customers' finished products until future shipment to end-users. Each distribution facility generally services the surrounding regional market. AmeriCold Logistics' transportation management services include freight routing, dispatching, freight rate negotiation, backhaul coordination, freight bill auditing, network flow management, order consolidation and distribution channel assessment. AmeriCold Logistics' temperature controlled logistics expertise and access to both frozen food warehouses and distribution channels enable its customers to respond quickly and efficiently to time-sensitive orders from distributors and retailers.

AmeriCold Logistics' customers consist primarily of national, regional and local frozen food manufacturers, distributors, retailers and food service organizations including Con-Agra, Tyson Foods, H.J. Heinz & Co., McCain Foods,

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Sara Lee, J.R. Simplot, Diageo, Pro-Fac Cooperative, Flowers Industries and Norpac Foods.

On March 11, 1999, AmeriCold Logistics entered into leases covering the warehouses used in this business. The leases, as amended, generally have a 15-year term with two five-year renewal options and provide for the payment of fixed base rent and percentage rent based on customer revenues. AmeriCold Logistics is required to pay for all costs arising from the operation, maintenance and repair of the properties, including all real estate taxes and assessments, utility charges, permit fees and insurance premiums, as well as property capital expenditures in excess of \$5,000,000 annually. AmeriCold Logistics recognized \$156,276,000 of rent expense for the year ended December 31, 2001. AmeriCold Logistics has the right to defer the payment of 15% of fixed base rent and all percentage rent for up to three years beginning on March 11, 1999 to the extent that available cash, as defined in the leases, is insufficient to pay such rent, and pursuant thereto, \$25,467,000 (of which the Company's share was \$15,281,400) was deferred for the period ended December 31,

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2001. The fixed rent for each of the two five-year renewal options is equal to the greater of the then fair market value rent and the fixed rent for the immediately preceding lease year plus 5%.

On February 22, 2001, the Landlord restructured the Americold Logistics leases to, among other things, (i) reduce 2001's contractual rent to \$146,000,000, (ii) reduce 2002's contractual rent to \$150,000,000 (plus contingent rent in certain circumstances), (iii) increase the Landlord's share of annual maintenance capital expenditures by \$4,500,000 to \$9,500,000 effective January 1, 2000 and (iv) extend the deferred rent period to December 31, 2003 from March 11, 2002.

During 2002, the Landlord waived its right to collect rent in the amount of \$39,812,000 (of which the Company's share was \$23,887,000) representing a portion of the rent due under the leases which Americold Logistics deferred in 2000 and 2001.

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Management of AmeriCold Logistics

Vornado is the day-to-day liaison to the management of AmeriCold Logistics. AmeriCold Logistics pays Vornado an annual fee of \$487,000, which is based on the non-real estate assets acquired by Americold Logistics in March 1999. The fee increases by an amount equal to 1% of the cost of new acquisitions, including transaction costs. AmeriCold Logistics provides financial statement preparation, tax and similar services to the Vornado/Crescent Partnerships for an annual fee of \$260,000 increasing 2% each year.

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REPORT OF THE AUDIT COMMITTEE

The Audit Committee's purpose is to assist the Board of Directors in its oversight of the Company's internal controls and financial statements and the audit process. The Board of Directors, in its business judgment, has determined that all members of the Committee are "independent", as required by applicable listing standards of the American Stock Exchange. The Committee operates pursuant to a Charter that was adopted by the Board on May 31, 2000; a copy of the current Charter was attached to the Company's proxy statement for its 2001 Annual Meeting of Stockholders.

Management is responsible for the preparation, presentation and integrity of the Company's financial statements, accounting and financial reporting principles and internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors, Deloitte & Touche LLP, are responsible for performing an independent audit of the consolidated financial statements in accordance with generally accepted auditing standards.

In performing its oversight role, the Audit Committee has considered and discussed the audited financial statements with management and the independent auditors. The Committee has also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as currently in effect. The Committee has received the written disclosures and the letter from the independent auditors required by Independence Standards Board No. 1, Independence Discussions with Audit Committees, as currently in effect. The Committee has also considered whether the provision of non-audit services provided by the independent auditors is compatible with maintaining the auditors' independence and has discussed with

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the auditors the auditors' independence.

Based on the reports and discussions described in this report, and subject to the limitations on the role and responsibilities of the Committee referred to below and in the Charter, the Audit Committee recommended to the Board of

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Directors that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are not experts in the fields of accounting or auditing, including in respect of auditor independence. Members of the Committee rely without independent verification on the information provided to them and on the representations made by management and the independent auditors. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not assure that the audit of the Company's financial statements has been carried out in accordance with generally accepted auditing standards, that the financial statements are presented in accordance with generally accepted accounting principles or that Deloitte & Touche LLP is in fact "independent".

RICHARD WEST
DOUGLAS DITTRICK
MARTIN ROSEN

April 30, 2002

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INFORMATION RESPECTING THE COMPANY'S INDEPENDENT AUDITORS

AUDIT FEES

The aggregate fees billed by Deloitte & Touche LLP, the Company's independent auditors for the year ended December 31, 2001, for professional services rendered for the audit of the Company's annual financial statements for that fiscal year and for the reviews of the financial statements included in the Company's quarterly reports on Form 10-Q for that fiscal year were \$73,000.

FINANCIAL INFORMATION SYSTEMS DESIGN AND IMPLEMENTATION FEES

There were no fees billed to the Company by Deloitte & Touche LLP for professional services rendered for information technology services relating to financial information systems design and implementation for the year ended December 31, 2001.

ALL OTHER FEES

The aggregate fees billed by Deloitte & Touche LLP for services rendered to the Company, other than the services described above under "Audit Fees" and "Financial Information Systems Design and Implementation Fees," for the fiscal year ended December 31, 2001 were \$3,000 which were for audit related services.

RETENTION OF INDEPENDENT AUDITORS FOR THE YEAR 2002

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The Board has retained Deloitte & Touche LLP to act as independent auditors for the fiscal year ending December 31, 2002. The firm of Deloitte & Touche LLP was engaged as independent auditors for the 2001 fiscal year, and representatives of Deloitte & Touche LLP are expected to be present at the Annual Meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

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ADDITIONAL MATTERS TO COME BEFORE THE MEETING

The Board does not intend to present any other matter, nor does it have any information that any other matter will be brought before the Annual Meeting. However, if any other matter properly comes before the Annual Meeting, it is the intention of the persons named in the enclosed proxy to vote said proxy in accordance with his discretion on such matters.

ADVANCE NOTICE FOR STOCKHOLDER NOMINATIONS AND PROPOSALS OF NEW BUSINESS

The By-laws of the Company generally require notice of any proposal to be presented by any stockholder or of the name of any person to be nominated by any stockholder for election as a director of the Company at the 2003 annual meeting of stockholders to be delivered to the Secretary of the Company at the principal executive office of the Company, 888 Seventh Avenue, New York, New York, 10019 between December 30, 2002, and January 29, 2003. Accordingly, failure by a stockholder to act in compliance with the notice provisions will mean that the stockholder will not be able to nominate directors or propose new business for consideration at the 2002 meeting.

Stockholders interested in presenting a proposal for inclusion in the proxy statement for the Company's annual meeting of stockholders in 2003 may do so by following the procedures prescribed in Rule 14a-8 under the Securities Exchange Act of 1934. To be eligible for inclusion, stockholder proposals must be received at the principal executive office of the Company, 888 Seventh Avenue, New York, New

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York 10019, Attention: Secretary, not later than December 31, 2002.

By order of the Board of Directors,

Larry Portal
Corporate Secretary

April 30, 2002

IT IS IMPORTANT THAT PROXIES BE RETURNED PROMPTLY. THEREFORE, STOCKHOLDERS ARE URGED TO FILL IN, SIGN AND RETURN THE ACCOMPANYING PROXY IN THE ENCLOSED ENVELOPE.

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VORNADO OPERATING COMPANY

PROXY

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The undersigned stockholder, revoking all prior proxies, hereby appoints Steven Roth and Michael Fascitelli, and each of them, as proxies, each with full power of substitution, to attend, and to cast all votes which the undersigned stockholder is entitled to cast at the Annual Meeting of Stockholders of Vornado Operating Company, a Delaware corporation (the "Company"), to be held at the Marriott Hotel, Interstate 80 and the Garden State Parkway, Saddle Brook, New Jersey 07663 on Wednesday, May 29, 2002 at 10:00 A.M., local time, upon any and all business as may properly come before the meeting and all postponements or adjournments thereof. Said proxies are authorized to vote as directed on the reverse side hereof upon the proposals which are more fully set forth in the Proxy Statement and otherwise in his discretion upon such other business as may properly come before the meeting and all postponements or adjournments thereof, all as more fully set forth in the Notice of Meeting and Proxy Statement, receipt of which is hereby acknowledged.

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS OF THE COMPANY. WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED IN THE MANNER DIRECTED BY THE UNDERSIGNED STOCKHOLDER. IF THIS PROXY IS EXECUTED BUT NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED "FOR" THE ELECTION OF DIRECTORS AND OTHERWISE IN THE DISCRETION OF THE PROXIES.

(Continued and to be Executed, on Reverse side)

(Continued from other side)

1. ELECTION OF DIRECTORS:

The Board of Directors recommends a Vote "FOR" Election of the nominees for Directors listed below.

[] FOR all nominees listed below

[] WITHHOLD AUTHORITY to vote for all nominees

Nominees: Douglas H. Dittrick

Richard West

(each for a term ending at the Annual Meeting of Stockholders in 2005)

TO WITHHOLD AUTHORITY TO VOTE FOR ANY INDIVIDUAL NOMINEE, WRITE THAT NOMINEE'S NAME IN THE SPACE PROVIDED BELOW.

Address Change and/or
Comments []

Please date and sign as your name or names appear hereon. Each joint owner must sign. (Officers, Executors, Administrators, Trustees, etc., will kindly so indicate when signing.)

Dated

-----,
2002

Signature(s) of Stockholder(s)
INDICATE YOUR VOTE (X) IN BLACK

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OR BLUE INK. [X]

PLEASE VOTE, DATE AND SIGN AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE.