

VORNADO REALTY TRUST
Form S-3
May 02, 2008

As filed with the Securities and Exchange Commission on May 2, 2008

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

VORNADO REALTY TRUST

(Exact Name of Registrant as Specified in Its Charter)

MARYLAND

(State or Other Jurisdiction of
Incorporation or Organization)

888 Seventh Avenue
New York, New York 10019
(212) 894-7000

(Address Including Zip Code, and Telephone
Number, Including Area Code, of Registrant's
Executive Offices)
Copy to:

22-1657560

(IRS Employer Identification Number)

Joseph Macnow
888 Seventh Avenue
New York, New York 10019
(212) 894-7000

(Address Including Zip Code, and Telephone Number,
Including Area Code, of Agent for Service)

William G. Farrar, Esq.
Sullivan & Cromwell LLP
125 Broad Street
New York, New York 10004

Approximate date of commencement of proposed sale to the public: From time to time after the effective date of this registration statement as determined by market conditions.

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If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box.

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, please check the following box.

CALCULATION OF REGISTRATION FEE

Title of shares to be registered	Amount to be registered	Proposed maximum offering price per share (2)	Proposed maximum aggregate offering price (2)	Amount of registration fee (2)
Common shares of beneficial interest, par value \$0.04 per share (1)	793,372	\$94.54	\$75,005,389	\$2,948

- (1) This Registration Statement on Form S-3 (Registration Statement) registers 793,372 common shares of beneficial interest, par value \$0.04 per share (Common Shares), of Vornado Realty Trust (Vornado) that may be offered by certain selling shareholders (the Selling Shareholders) comprised of up to 653,574 Common Shares that Vornado may elect to issue to certain Selling Shareholders upon redemption of up to 653,574 Class A units (Units) of limited partnership interest in Vornado Realty L.P. (the Operating Partnership) issued by the Operating Partnership in connection with the conversion of 563,263 Series B-1 Convertible Preferred Units of limited partnership by the Selling Shareholders and up to 139,798 Common Shares that Vornado may elect to issue to certain Selling Stockholders upon redemption of 139,798 Units that may be issued by the Operating Partnership upon the conversion or redemption of certain Class B Units of limited partnership issued by the Operating Partnership in connection with the restructuring of the Class B Units. This Registration Statement also relates to such additional Common Shares as may be issued as a result of certain adjustments including, without limitation, share dividends and share splits.
- (2) Estimated solely for purposes of calculating the registration fee in accordance with Rule 457(c) based on the average of the high and low reported sales prices on the New York Stock Exchange on April 30, 2008.

PROSPECTUS

793,372 SHARES

VORNADO REALTY TRUST

COMMON SHARES OF BENEFICIAL INTEREST

The Selling Shareholders (the Selling Shareholders) of Vornado Realty Trust (Vornado) named herein may offer from time to time up to 793,372 common shares of beneficial interest, par value \$0.04 per share (Common Shares), of Vornado, in amounts, at prices and on terms to be determined at the time of sale. Vornado will not receive any of the proceeds from the sale of the Common Shares being sold by the Selling Shareholders. See Use of Proceeds herein.

On January 18, 2007, Vornado Realty L.P. (the Operating Partnership), (i) issued to the Selling Shareholders 653,574 Class A Units and (ii) issued to the Selling Shareholders 139,798 Class B-1 Units of limited partnership and 304,761 Class B-2 Units of limited partnership (together, the Class B Units), in a private placement exempt from registration under the Securities Act of 1933. Subject to certain conditions, the Selling Shareholders have the right to convert all or a portion of their Class B Units into Class A Units of limited partnership (Class A Units) and the Operating Partnership has the right to redeem all or a portion of the Class B Units for Class A Units.

The Common Shares covered by this prospectus are comprised of (a) up to 653,574 Common Shares that may be issued to certain Selling Shareholders, at our option, upon the redemption of the 653,574 Class A Units issued by the Operating Partnership and (b) up to 139,798 Common Shares that may be issued to certain Selling Shareholders, at our option, upon the redemption of 139,798 Class A Units that may be issued by the Operating Partnership upon the conversion or redemption of the Class B Units.

We have registered the offering and resale of the Common Shares to allow the Selling Shareholders to sell these Common Shares without restriction in the open market or otherwise, but the registration of the Common Shares does not necessarily mean that the Selling Shareholders will elect to redeem their Units or that the Selling Shareholders will offer or sell their Common Shares. See Selling Shareholders herein.

The Selling Shareholders may sell the Common Shares offered hereby directly to purchasers or through underwriters, dealers, brokers or agents designated from time to time. Sales of Common Shares in particular offerings may be made on the New York Stock Exchange (NYSE) or in the over-the-counter market or otherwise at prices and on terms then prevailing, at prices related to the then current market price, at fixed prices (which may be changed) or in negotiated transactions. To the extent required for any offering, a supplement to this Prospectus (a Prospectus Supplement) will set forth the number of Common Shares then being offered, the initial offering price, the names of any underwriters, dealers, brokers or agents and the applicable sales commission or discount. Any such Prospectus Supplement will also contain a discussion of the material United States Federal income tax considerations relating to the Common Shares to the extent not contained herein. See Plan of Distribution herein.

The Common Shares of Vornado are listed on the NYSE under the symbol VNO.

See Risk Factors on page 6 for certain factors relevant to an investment in the Common Shares.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus.

Any representation to the contrary is a criminal offense.

Prospectus dated May 2, 2008.

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You should rely only on the information contained in this prospectus or any accompanying prospectus supplement or incorporated by reference in these documents. No dealer, salesperson or other person is authorized to give any information or to represent anything not contained or incorporated by reference in this prospectus or any accompanying prospectus supplement. If anyone provides you with different, inconsistent or unauthorized information or representations, you must not rely on them. This prospectus and any accompanying prospectus supplement are an offer to sell only the securities offered by these documents, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus or any accompanying prospectus supplement is current only as of the date on the front of those documents.

Unless the context otherwise requires or as otherwise specified, references in this prospectus to Vornado, we, us or our refer to Vornado Realty Trust and its subsidiaries, including Vornado Realty L.P., except where we make clear that we mean only the parent company, Vornado Realty Trust. In addition, we sometimes refer to Vornado Realty L.P. as the operating partnership.

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AVAILABLE INFORMATION

We are required to file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (the SEC). You may read and copy any documents filed by us at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our filings with the SEC are also available to the public through the SEC's Internet site at <http://www.sec.gov> and through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which our common shares are listed.

We have filed a registration statement on Form S-3 with the SEC relating to the securities covered by this prospectus. This prospectus is a part of the registration statement and does not contain all of the information in the registration statement. Whenever a reference is made in this prospectus to a contract or other document, please be aware that the reference is only a summary and that you should refer to the exhibits that are a part of the registration statement for a copy of the contract or other document. You may review a copy of the registration statement at the SEC's public reference room in Washington, D.C., as well as through the SEC's Internet site.

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The SEC's rules allow us to incorporate by reference information into this prospectus. This means that we can disclose important information to you by referring you to other documents. Any information referred to in this way is considered part of this prospectus from the date we file that document. Any reports filed by us with the SEC after the date of the initial registration statement of which this prospectus is a part and before the date that the offering of the securities by means of this prospectus is terminated will automatically update and, where applicable, supersede any information contained in this prospectus or incorporated by reference in this prospectus.

We incorporate by reference into this prospectus the following documents or information filed with the SEC:

- (1) Annual report of Vornado Realty Trust on Form 10-K for the fiscal year ended December 31, 2007, filed with SEC on February 26, 2008 (File No. 001-11954);
- (2) Current report of Vornado Realty Trust on Form 8-K filed with the SEC on April 12, 2008 (File No. 001-11954);
- (3) The description of Vornado Realty Trust's common shares contained in our registration statement on Form 8-B, filed with the SEC on May 10, 1993 (File No. 001-11954); and
- (4) All documents filed by Vornado Realty Trust under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus and before the termination of this offering or after the date of the initial registration statement and before effectiveness of the registration statement, except that the information referred to in Item 402(a)(8) of Regulation S-K of the SEC is not incorporated by reference into this prospectus.

We will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered, upon his or her written or oral request, a copy of any or all documents referred to above which have been or may be incorporated by reference into this prospectus, excluding exhibits to those documents unless they are specifically incorporated by reference into those documents. You can request those documents from our corporate secretary, 888 Seventh Avenue, New York, New York 10019, telephone (212) 894-7000. Alternatively, copies of these documents may be available on our website (www.vno.com). Any other documents available on our website are not incorporated by reference into this prospectus.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the documents incorporated by reference in it, contains forward-looking statements with respect to our financial condition, results of operations and business. These statements may be made directly in this document or they may be made part of this document by reference to other documents filed with the SEC, which is known as incorporation by reference. You can find many of these statements by looking for words such as believes, expects, anticipates, estimates, intends, plans or similar expressions in this prospectus or documents incorporated by reference.

These forward-looking statements are subject to numerous assumptions, risks and uncertainties. Factors that may cause actual results to differ materially from those contemplated by the forward-looking statements include, among others, those listed under the caption Risk Factors in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and, to the extent applicable, our Quarterly Reports on Form 10-Q, and any applicable prospectus supplement, as well as the following possibilities:

- national, regional and local economic conditions;
- consequences of any armed conflict involving, or terrorist attack against, the United States;
- our ability to secure adequate insurance;
- local conditions such as an oversupply of space or a reduction in demand for real estate in the area;
- competition from other available space;
- whether tenants consider a property attractive;
- the financial condition of our tenants, including the extent of tenant bankruptcies or defaults;
- whether we are able to pass some or all of any increased operating costs through to our tenants;
- how well we manage our properties;
- fluctuations in interest rates;
- changes in real estate taxes and other expenses;
- changes in market rental rates;
- the timing and costs associated with property improvements and rentals;
- changes in taxation or zoning laws;
- government regulation;
- our failure to continue to qualify as a real estate investment trust;
- availability of financing on acceptable terms or at all;
- potential liability under environmental or other laws or regulations; and
- general competitive factors.

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Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these items are beyond our ability to control or predict. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this prospectus or, if applicable, the date of the applicable document incorporated by reference.

All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this prospectus or to reflect the occurrence of unanticipated events. For more information on the uncertainty of forward-looking statements, see **Risk Factors** in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and, to the extent applicable, our Quarterly Reports on Form 10-Q and any applicable prospectus supplement.

RISK FACTORS

An investment in our common shares involves certain risks. See **Risk Factors** beginning on page 13 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, which is incorporated by reference herein, and, to the extent applicable, our Quarterly Reports on Form 10-Q, to read about factors you should consider before investing in our common shares.

VORNADO REALTY TRUST

Vornado Realty Trust is a fully integrated real estate investment trust organized under the laws of Maryland. We conduct our business through, and substantially all of our interests in properties are held by, Vornado Realty L.P. Vornado Realty L.P. is the operating partnership. We are the sole general partner of, and owned approximately 90.1% of the common limited partnership interest in, Vornado Realty L.P. as of December 31, 2007.

At December 31, 2007 we, through the operating partnership, currently own directly or indirectly:

Office Properties:

all or portions of 24 office properties aggregating approximately 16.0 million square feet in the New York City metropolitan area (primarily Manhattan);
all or portions of 84 office properties aggregating 17.6 million square feet in the Washington, DC and Northern Virginia areas;
a 70% controlling interest in 555 California Street aggregating 1.8 million square feet in San Francisco's financial district;

Retail Properties:

177 retail properties in 21 states, Washington, DC and Puerto Rico aggregating approximately 21.9 million square feet, including 3.6 million square feet owned by tenants on land leased from us;

Merchandise Mart Properties:

9 properties in five states and Washington, DC aggregating approximately 9.1 million square feet of showroom and office space, including the 3.3 million square foot Merchandise Mart in Chicago;

Toys R Us, Inc.:

a 32.7% interest in Toys R Us, Inc. which owns and/or operates 1,352 stores worldwide, including 588 toy stores and 259 Babies R Us stores in the United States and 505 toy stores internationally;

Other Real Estate Investments:

32.8% of the common stock of Alexander's, Inc. (NYSE: ALX), which has seven properties in the greater New York metropolitan area;

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the Hotel Pennsylvania in New York City, consisting of a hotel portion containing 1.0 million square feet with 1,700 rooms and a commercial portion containing 400,000 square feet of retail and office space; mezzanine loans to entities that have significant real estate assets; and

interests in other real estate, including interests in other public companies that own and manage office, industrial and retail properties net leased to major corporations and student and military housing properties throughout the United States; six warehouse/industrial properties in New Jersey containing approximately 1.2 million square feet; and other investments and marketable securities.

Recent Development

On March 31, 2008, we sold our 47.6% interest in Americold Realty Trust to The Yucaipa Companies for net proceeds of approximately \$220 million, resulting in a gain of approximately \$113 million.

Our principal executive offices are located at 888 Seventh Avenue, New York, New York 10019, and our telephone number is (212) 894-7000.

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USE OF PROCEEDS

All of the Common Shares are being offered by the Selling Shareholders. We will not receive any proceeds from the sale of the Common Shares but will acquire units in Vornado Realty L.P. in exchange for any Common Shares that we may issue to a redeeming Unit holder.

SELLING SHAREHOLDERS

The following table sets forth the names of the Selling Shareholders, the total number of Common Shares beneficially owned by them as of April 30, 2008, the total number of Common Shares offered by the Selling Shareholders and the total number and percentage of outstanding Common Shares that will be beneficially owned by the Selling Shareholders upon completion of the offering. The table assumes that (i) Class B Units held by Selling Shareholders have been converted or redeemed for Class A Units, and (ii) the Class A Units received upon the conversion or redemption of the Class B Units along with the other Class A Units acquired by such Selling Shareholder on January 18, 2007, have been redeemed by the Selling Shareholders and that we issue Common Shares to the Selling Shareholders. In addition, since the Selling Shareholders may sell all, some or none of their Common Shares, the table assumes that the Selling Shareholders are offering, and will sell, all of the Common Shares to which this prospectus relates.

We have registered the offering and resale of the Common Shares to allow the Selling Shareholder to sell these Common Shares without restriction in the open market or otherwise, but the registration of the Common Shares does not necessarily mean that we will redeem the Class A Units held by the Selling Shareholders for our Common Shares or that the Selling Shareholders will offer or sell their Common Shares.

The Selling Shareholders and their pledgees, donees, transferees or other successors in interest may sell the Common Shares offered hereby directly to purchasers or through underwriters, dealers, brokers or agents designated from time to time. Sales of Common Shares in particular offerings may be made on the New York Stock Exchange (NYSE) or in the over-the-counter market or otherwise at prices and on terms then prevailing, at prices related to the then current market price, at fixed prices (which may be changed) or in negotiated transactions. To the extent required for any offering, a supplement to this Prospectus (a Prospectus Supplement) will set forth the number of Common Shares then being offered, the initial offering price, the names of any underwriters, dealers, brokers or agents and the applicable sales commission or discount. See Plan of Distribution below for more information.

<u>Name of Selling Shareholders</u> ⁽¹⁾	Common Shares Beneficially Owned	Common Shares Offered	Common Shares Beneficially Owned, Assuming the Sale of all Common Shares Offered	Percentage of Outstanding Common Shares Beneficially Owned, Assuming the Sale of all Common Shares Offered
Park Realty (IL), LLC	605,374	605,374	0	*
Park Realty (DC), LLC	187,998	187,998	0	*
Total	793,372	793,372	0	*

*less than 1%

o(1) The information provided in this section has been provided to us by the Selling Shareholders.

DESCRIPTION OF COMMON SHARES

The following description of our common shares is only a summary and is subject to, and qualified in its entirety by reference to, the provision governing the common shares contained in our (a) restated declaration of trust, and (b) amended and restated bylaws, copies of which are exhibits to the registration statement of which this

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prospectus is a part. See Available Information for information about how to obtain copies of the declaration of trust and bylaws.

The declaration of trust authorizes the issuance of up to 720,000,000 shares, consisting of 250,000,000 common shares of beneficial interest, \$.04 par value per share, 110,000,000 preferred shares of beneficial interest, no par value per share, and 360,000,000 excess shares of beneficial interest, \$.04 par value per share.

As of March 31, 2008, 153,596,239 common shares were issued and outstanding. No excess shares were issued and outstanding as of March 31, 2008. Our common shares are listed on the NYSE under the symbol VNO.

As of March 31, 2008, the declaration of trust authorizes the issuance of 110,000,000 preferred shares. Of the authorized 110,000,000 preferred shares, we have designated:

83,977 as \$3.25 Series A Convertible Preferred Shares;
4,800,000 as Series D-10 7.00% Cumulative Redeemable Preferred Shares;
1,400,000 as Series D-11 7.20% Cumulative Redeemable Preferred Shares;
800,000 as Series D-12 6.55% Cumulative Redeemable Preferred Shares;
4,000,000 as Series D-14 6.75% Cumulative Redeemable Preferred Shares;
1,800,000 as Series D-15 6.875% Cumulative Redeemable Preferred Shares;
3,000,000 as 7.00% Series E Cumulative Redeemable Preferred Shares;
6,000,000 as 6.75% Series F Cumulative Redeemable Preferred Shares;
8,000,000 as 6.625% Series G Cumulative Redeemable Preferred Shares;
4,500,000 as 6.750% Series H Cumulative Redeemable Preferred Shares; and
10,800,000 as 6.625% Series I Cumulative Redeemable Preferred Shares.

As of March 31, 2008, 59,862 Series A Preferred Shares, 1,600,000 Series D-10 Preferred Shares, 3,000,000 Series E Preferred Shares, 6,000,000 Series F Preferred Shares, 8,000,000 Series G Preferred Shares, 4,500,000 Series H Preferred Shares and 10,800,000 Series I Preferred Shares were outstanding. No Series D-11, Series D-12, Series D-14 or Series D-15 Preferred Shares were issued and outstanding as of December 31, 2007. Shares of each of these series may be issued in the future upon redemption of preferred units of limited partnership interest of the operating partnership of a corresponding series that were issued and outstanding as of December 31, 2007.

Dividend and Voting Rights of Holders of Common Shares

The holders of our common shares are entitled to receive dividends when, if and as authorized by our board and declared by us out of assets legally available to pay dividends, if receipt of the dividends is in compliance with the provisions in the declaration of trust restricting the transfer of shares of beneficial interest. However, if any preferred shares are at the time outstanding, we may only pay dividends or other distributions on common shares or purchase common shares if full cumulative dividends have been paid on outstanding preferred shares and there is no arrearage in any mandatory sinking fund on outstanding preferred shares. The terms of the series of preferred shares that are now issued and outstanding do not provide for any mandatory sinking fund.

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The holders of our common shares are entitled to one vote for each share on all matters on which shareholders are entitled to vote, including elections of trustees. There is no cumulative voting in the election of trustees, which means that the holders of a majority of the outstanding common shares can elect all of the trustees then standing for election. The holders of our common shares do not have any conversion, redemption or preemptive rights to subscribe to any of our securities. If we are dissolved, liquidated or wound up, holders of our common shares are entitled to share proportionally in any assets remaining after the prior rights of creditors, including holders of our indebtedness, and the aggregate liquidation preference of any preferred shares then outstanding are satisfied in full.

The common shares have equal dividend, distribution, liquidation and other rights and have no preference, appraisal or exchange rights. All outstanding common shares are, and the common shares offered by this prospectus, upon issuance, will be, duly authorized, fully paid and non-assessable.

Restrictions on Ownership of Common Shares

The common shares beneficial ownership limit

For us to maintain our qualification as a REIT under the Code, not more than 50% of the value of our outstanding shares of beneficial interest may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of a taxable year and the shares of beneficial interest must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months, or during a proportionate part of a shorter taxable year. The Code defines individuals to include some entities for purposes of the preceding sentence. All references to a shareholder's ownership of common shares in this section The common shares beneficial ownership limit assume application of the applicable attribution rules of the Code under which, for example, a shareholder is deemed to own shares owned by his or her spouse.

Our declaration of trust contains a number of provisions that restrict the ownership and transfer of shares and are designed to safeguard us against an inadvertent loss of our REIT status. These provisions also seek to deter non-negotiated acquisitions of, and proxy fights for, us by third parties. Our declaration of trust contains a limitation that restricts, with some exceptions, shareholders from owning more than a specified percentage of the outstanding common shares. We call this percentage the common shares beneficial ownership limit. The common shares beneficial ownership limit was initially set at 2.0% of the outstanding common shares. Our board subsequently adopted a resolution raising the common shares beneficial ownership limit from 2.0% to 6.7% of the outstanding common shares and has the authority to grant exemptions from the common shares beneficial ownership limit. The shareholders who owned more than 6.7% of the common shares immediately after the merger of Vornado, Inc. into Vornado in May 1993 may continue to do so and may acquire additional common shares through stock option and similar plans or from other shareholders who owned more than 6.7% of the common shares immediately after that merger. However, common shares cannot be transferred if, as a result, more than 49.9% in value of our outstanding shares would be owned by five or fewer individuals. While the shareholders who owned more than 6.7% of the common shares immediately after the merger of Vornado, Inc. into Vornado in May 1993 are not generally permitted to acquire additional common shares from any other source, these shareholders may acquire additional common shares from any source if we issue additional common shares, up to the percentage held by them immediately before we issue the additional shares.

Shareholders should be aware that events other than a purchase or other transfer of common shares can result in ownership, under the applicable attribution rules of the Code, of common shares in excess of the common shares beneficial ownership limit. For instance, if two shareholders, each of whom owns 3.5% of our outstanding common shares, were to marry, then after their marriage both shareholders would be deemed to own 7.0% of our outstanding common shares, which is in excess of the common shares beneficial ownership limit. Similarly, if a shareholder who owns 4.9% of the outstanding common shares were to purchase a 50% interest in a corporation which owns 4.8% of the outstanding common shares, then the shareholder would be deemed to own 7.3% of our outstanding common shares. You should consult your own tax advisors concerning the application of the attribution rules of the Code in your particular circumstances.

The constructive ownership limit

Under the Code, rental income received by a REIT from persons in which the REIT is treated, under the applicable attribution rules of the Code, as owning a 10% or greater interest does not constitute qualifying income for purposes of the income requirements that REITs must satisfy. For these purposes, a REIT is treated as owning any stock owned, under the applicable attribution rules of the Code, by a person that owns 10% or more of the value of the outstanding shares of the REIT. The attribution rules of the Code applicable for these purposes are different from those applicable with respect to the common shares beneficial ownership limit. All references to a shareholder's ownership of common shares in this section assume application of the applicable attribution rules of the Code.

In order to ensure that our rental income will not be treated as nonqualifying income under the rule described in the preceding paragraph, and thus to ensure that we will not inadvertently lose our REIT status as a result of the ownership of shares by a tenant, or a person that holds an interest in a tenant, the declaration of trust contains an ownership limit that restricts, with some exceptions, shareholders from owning more than 9.9% of the outstanding shares of any class. We refer to this 9.9% ownership limit as the constructive ownership limit. The shareholders who owned shares in excess of the constructive ownership limit immediately after the merger of Vornado, Inc. into Vornado in May 1993 generally are not subject to the constructive ownership limit. The declaration of trust also contains restrictions that are designed to ensure that the shareholders who owned shares in excess of the constructive ownership limit immediately after the merger of Vornado, Inc. into Vornado in May 1993 will not, in the aggregate, own a large enough interest in a tenant or subtenant of the REIT to cause rental income received, directly or indirectly, by the REIT from that tenant or subtenant to be treated as nonqualifying income for purposes of the income requirements that REITs must satisfy. The restrictions described in the preceding sentence have an exception for tenants and subtenants from whom the REIT receives, directly or indirectly, rental income that is not in excess of a specified threshold.

Shareholders should be aware that events other than a purchase or other transfer of shares can result in ownership, under the applicable attribution rules of the Code, of shares in excess of the constructive ownership limit. As the attribution rules that apply with respect to the constructive ownership limit differ from those that apply with respect to the common shares beneficial ownership limit, the events other than a purchase or other transfer of shares which can result in share ownership in excess of the constructive ownership limit can differ from those which can result in share ownership in excess of the common shares beneficial ownership limit. You should consult your own tax advisors concerning the application of the attribution rules of the Code in your particular circumstances.

Issuance of excess shares if the ownership limits are violated

Our declaration of trust provides that a transfer of common shares that would otherwise result in ownership, under the applicable attribution rules of Code, of common shares in excess of the common shares beneficial ownership limit or the constructive ownership limit, or which would cause our shares of beneficial interest to be beneficially owned by fewer than 100 persons, will have no effect and the purported transferee will acquire no rights or economic interest in the common shares. In addition, our declaration of trust provides that common shares that would otherwise be owned, under the applicable attribution rules of the Code, in excess of the common shares beneficial ownership limit or the constructive ownership limit will be automatically exchanged for excess shares. These excess shares will be transferred, by operation of law, to us as trustee of a trust for the exclusive benefit of a beneficiary designated by the purported transferee or purported holder. While so held in trust, excess shares are not entitled to vote and are not entitled to participate in any dividends or distributions made by us. Any dividends or distributions received by the purported transferee or other purported holder of the excess shares before we discover the automatic exchange for excess shares must be repaid to us upon demand.

If the purported transferee or purported holder elects to designate a beneficiary of an interest in the trust with respect to the excess shares, he or she may designate only a person whose ownership of the shares will not violate the common shares beneficial ownership limit or the constructive ownership limit. When the designation is made, the excess shares will be automatically exchanged for common shares. The declaration of trust contains provisions designed to ensure that the purported transferee or other purported holder of the excess shares may not receive in return for transferring an interest in the trust with respect to the excess shares, an amount that reflects any appreciation in the common shares for which the excess shares were exchanged during the period that the excess

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shares were outstanding but will bear the burden of any decline in value during that period. Any amount received by a purported transferee or other purported holder for designating a beneficiary in excess of the amount permitted to be received must be turned over to us. The declaration of trust provides that we, or our designee, may purchase any excess shares that have been automatically exchanged for common shares as a result of a purported transfer or other event. The price at which we, or our designee, may purchase the excess shares will be equal to the lesser of:

in the case of excess shares resulting from a purported transfer for value, the price per share in the purported transfer that resulted in the automatic exchange for excess shares, or in the case of excess shares resulting from some other event, the market price of the common shares exchanged on the date of the automatic exchange for excess shares; and
the market price of the common shares exchanged for the excess shares on the date that we accept the deemed offer to sell the excess shares.

Our right to buy the excess shares will exist for 90 days, beginning on the date that the automatic exchange for excess shares occurred or, if we did not receive a notice concerning the purported transfer that resulted in the automatic exchange for excess shares, the date that our board determines in good faith that an exchange for excess shares has occurred.

Other provisions concerning the restrictions on ownership

Our board may exempt persons from the common shares beneficial ownership limit or the constructive ownership limit, including the limitations applicable to holders who owned in excess of 6.7% of the common shares immediately after the merger of Vornado, Inc. into Vornado in May 1993, if evidence satisfactory to our board is presented showing that the exemption will not jeopardize our status as a REIT under the Code. No exemption to a person that is an individual for purposes of Section 542(a)(2) of the Code, however, may permit the individual to have beneficial ownership in excess of 9.9% of the outstanding shares of the class. Before granting an exemption of this kind, our board may require a ruling from the IRS, and/or an opinion of counsel satisfactory to it and/or representations and undertakings from the applicant with respect to preserving our REIT status.

The foregoing restrictions on transferability and ownership will not apply if our board determines that it is no longer in our best interests to attempt to qualify, or to continue to qualify, as a REIT.

All persons who own, directly or by virtue of the applicable attribution rules of the Code, more than 2.0% of the outstanding common shares must give a written notice to us containing the information specified in our declaration of trust by January 31 of each year. In addition, each shareholder will be required to disclose to us upon demand any information that we may request, in good faith, to determine our status as a REIT or to comply with Treasury regulations promulgated under the REIT provisions of the Code.

The ownership restrictions described above may have the effect of precluding acquisition of our control unless our board determines that maintenance of REIT status is no longer in our best interests.

Transfer Agent

The transfer agent for our common shares is American Stock Transfer & Trust Company, New York, New York.

**CERTAIN PROVISIONS OF MARYLAND LAW AND
OF OUR DECLARATION OF TRUST AND BYLAWS**

The following description of certain provisions of Maryland law and of our declaration of trust and bylaws is only a summary. For a complete description, we refer you to Maryland law, our declaration of trust and our bylaws.

Classification of the Board of Trustees

Our declaration of trust provides that the number of our trustees may be established by the board of trustees, provided however that the tenure of office of a trustee will not be affected by any decrease in the number of trustees. Any vacancy on the board may be filled only by a majority of the remaining trustees, even if the remaining trustees do not constitute a quorum. Any trustee elected to fill a vacancy will hold office for the remainder of the full term of the class of trustees in which the vacancy occurred and until a successor is duly elected and qualifies.

Our declaration of trust divides our board of trustees into three classes. Shareholders elect our trustees of each class for three-year terms upon the expiration of their current terms. Shareholders elect only one class of trustees each year. We believe that classification of our board of trustees helps to assure the continuity of our business strategies and policies. There is no cumulative voting in the election of trustees. Consequently, at each annual meeting of shareholders, the holders of a majority of our common shares are able to elect all of the successors of the class of trustees whose term expires at that meeting.

The classified board provision could have the effect of making the replacement of incumbent trustees more time consuming and difficult. At least two annual meetings of shareholders will generally be required to effect a change in a majority of the board of trustees. Thus, the classified board provision could increase the likelihood that incumbent trustees will retain their positions. The staggered terms of trustees may delay, defer or prevent a tender offer or an attempt to change control of Vornado, even though the tender offer or change in control might be in the best interest of the shareholders.

Removal of Trustees

Our declaration of trust provides that a trustee may be removed only for cause and only by the affirmative vote of at least two-thirds of the votes entitled to be cast in the election of trustees. This provision, when coupled with the provision in our bylaws authorizing the board of trustees to fill vacant trusteeships, precludes shareholders from removing incumbent trustees except for cause and by a substantial affirmative vote and filling the vacancies created by the removal with their own nominees.

Business Combinations

Under Maryland law, business combinations between a Maryland real estate investment trust and an interested shareholder or an affiliate of an interested shareholder are prohibited for five years after the most recent date on which the interested shareholder becomes an interested shareholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested shareholder is defined as:

any person who beneficially owns ten percent or more of the voting power of the trust's shares; or

an affiliate or associate of the trust who, at any time within the two-year period prior to the date in question, was the beneficial owner of ten percent or more of the voting power of the then outstanding voting shares of the trust.

A person is not an interested shareholder under the statute if the board of trustees approved in advance the transaction by which he otherwise would have become an interested shareholder. However, in approving a transaction, the board of trustees may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

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After the five-year prohibition, any business combination between the Maryland trust and an interested shareholder generally must be recommended by the board of directors of the trust and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding voting shares of the trust; and

two-thirds of the votes entitled to be cast by holders of voting shares of the trust other than shares held by the interested shareholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested shareholder.

These super-majority vote requirements do not apply if the trust's common shareholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested shareholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of trustees before the time that the interested shareholder becomes an interested shareholder.

The board of trustees has adopted a resolution exempting any business combination between any trustee or officer of Vornado, or their affiliates, and Vornado. As a result, the trustees and officers of Vornado and their affiliates may be able to enter into business combinations with Vornado. With respect to business combinations with other persons, the business combination provisions of the Maryland General Corporation Law may have the effect of delaying, deferring or preventing a change in control of Vornado or other transaction that might involve a premium price or otherwise be in the best interest of the shareholders. The business combination statute may discourage others from trying to acquire control of Vornado and increase the difficulty of consummating any offer.

Control Share Acquisitions

Maryland law provides that control shares of a Maryland real estate investment trust acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by employees who are trustees of the trust are excluded from shares entitled to vote on the matter. Control Shares are voting shares which, if aggregated with all other shares owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing trustees within one of the following ranges of voting power:

one-tenth or more but less than one-third,

one-third or more but less than a majority, or

a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained shareholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of trustees of the trust to call a special meeting of shareholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the trust may itself present the question at any shareholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the trust may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the trust to redeem control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of

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shareholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a shareholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other shareholders may exercise appraisal rights. The fair value of the shares as determined for purposes of appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The control share acquisition statute does not apply (a) to shares acquired in a merger, consolidation or share exchange if the trust is a party to the transaction, or