

VORNADO REALTY TRUST
Form 10-K/A
March 02, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-K/A

(Amendment No. 1)

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

For the Fiscal Year Ended: December 31, 2008

OR

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

For the transition period from _____ to _____

Commission File Number: 1-11954

VORNADO REALTY TRUST

(Exact name of Registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

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

888 Seventh Avenue, New York, New York
(Address of Principal Executive Offices)

10019
(Zip Code)

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

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Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares of beneficial interest, \$.04 par value per share	New York Stock Exchange
Series A Convertible Preferred Shares of beneficial interest, no par value	New York Stock Exchange
Cumulative Redeemable Preferred Shares of beneficial interest, no par value:	
8.5% Series B	New York Stock Exchange
8.5% Series C	New York Stock Exchange
7.0% Series E	New York Stock Exchange
6.75% Series F	New York Stock Exchange
6.625% Series G	New York Stock Exchange
6.75% Series H	New York Stock Exchange
6.625% Series I	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Non-Accelerated Filer (Do not check if smaller reporting company)

Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the registrant, i.e. by persons other than officers and trustees of Vornado Realty Trust, was \$11,989,973,000 at June 30, 2008.

As of February 6, 2009, there were 155,460,522 of the registrant's common shares of beneficial interest outstanding.

Documents Incorporated by Reference

Part III: Portions of Proxy Statement for Annual Meeting of Shareholders to be held on May 14, 2009.

Explanatory Note

In accordance with Rule 3-09 of Regulation S-X, Vornado Realty Trust (the Registrant or Vornado) is required to include in its Annual Report on Form 10-K for the year ended December 31, 2008, audited financial statements of Lexington Realty Trust (Lexington), an equity method investee in which Vornado owns approximately 17.2% of the outstanding common shares. On February 24, 2009, Vornado filed its annual report for the year ended December 31, 2008 on Form 10-K with the Securities and Exchange Commission indicating on the cover page that it would file an amendment to the Form 10-K to include Lexington s audited financial statements and related disclosures as soon as practicable after they were available. On March 2, 2009, Lexington filed its Annual Report on Form 10-K for its fiscal year ended December 31, 2008. Accordingly, Vornado is filing this Amendment No. 1 on Form 10-K/A to Vornado s Form 10-K, filed on February 24, 2009, to incorporate by reference into Item 8, Lexington s audited financial statements and related disclosures and to include the consent of KPMG LLP, Lexington s independent registered public accounting firm with respect to its report on such audited financial statements and consent of PricewaterhouseCoopers, LLP. Except as otherwise expressly noted herein, this Amendment No. 1 does not reflect events occurring after the filing of Vornado s original Form 10-K on February 24, 2009 in any way, except to reflect the changes discussed herein. Accordingly, this Amendment No. 1 should be read in conjunction with Vornado s original Form 10-K.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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Consolidated Financial Statements of Lexington Realty Trust, Report of Independent Registered Public Accounting Firm thereon and Notes to Such Consolidated Financial Statements (incorporated herein by reference to Item 8 of Lexington Realty Trust's Annual Report on Form 10-K for the fiscal year ended December 31, 2008 (file no. 001-12386), filed with the Securities and Exchange Commission on March 2, 2009	Not applicable

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Trustees

Vornado Realty Trust

New York, New York

We have audited the accompanying consolidated balance sheets of Vornado Realty Trust (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. Our audits also included the financial statement schedules listed in the Index in Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Vornado Realty Trust at December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 16 to the consolidated financial statements, effective December 31, 2008, the Company retrospectively adopted the measurement provisions of Emerging Issues Task Force Topic D-98, *Classification and Measurement of Redeemable Securities*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 24, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey

February 24, 2009

VORNADO REALTY TRUST

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share and per share amounts)

	December 31,	
	2008	2007
ASSETS		
Real estate, at cost:		
Land	\$ 4,516,141	\$ 4,576,479
Buildings and improvements	12,146,558	11,523,977
Development costs and construction in progress	1,088,356	821,991
Leasehold improvements and equipment	118,603	106,060
Total	17,869,658	17,028,507
Less accumulated depreciation and amortization	(2,161,093)	(1,802,055)
Real estate, net	15,708,565	15,226,452
Cash and cash equivalents	1,526,853	1,154,595
Escrow deposits and restricted cash	375,888	378,732
Marketable securities	334,322	322,992
Accounts receivable, net of allowance for doubtful accounts of \$32,834 and \$19,151	201,566	168,183
Investments in partially owned entities, including Alexander's of \$137,305 and \$122,797	790,154	1,206,742
Investment in Toys 'R Us	293,096	298,089
Mezzanine loans receivable, net of allowance of \$46,700 and \$57,000	472,539	492,339
Receivable arising from the straight-lining of rents, net of allowance of \$5,773 and \$3,076	592,726	513,137
Deferred leasing and financing costs, net of accumulated amortization of \$168,714 and \$123,624	306,748	273,958
Assets related to discontinued operations	110,380	1,632,318
Due from officers	13,185	13,228
Other assets	692,188	798,170
	\$ 21,418,210	\$ 22,478,935
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and mortgages payable	\$ 8,835,387	\$ 7,938,457
Convertible senior debentures	2,342,914	2,360,412
Senior unsecured notes	617,816	698,656
Exchangeable senior debentures	494,501	492,857
Revolving credit facility debt	358,468	405,656
Accounts payable and accrued expenses	515,607	480,123
Deferred credit	764,774	848,852
Deferred compensation plan	69,945	67,714
Deferred tax liabilities	19,895	241,895
Liabilities related to discontinued operations	750	1,332,630
Other liabilities	142,777	118,983
Total liabilities	14,162,834	14,986,235
Minority interest, including unitholders in the Operating Partnership	1,590,891	2,074,601
Commitments and contingencies		
Shareholders' equity:		
Preferred shares of beneficial interest: no par value per share; authorized 110,000,000 shares; issued and outstanding 33,954,124 and 33,980,362 shares	823,807	825,095
Common shares of beneficial interest: \$.04 par value per share; authorized 250,000,000 shares; issued and outstanding 155,285,903 and 153,076,606 shares	6,195	6,140
Additional capital	5,817,380	5,278,717
Earnings less than distributions	(975,998)	(721,625)
Accumulated other comprehensive (loss) income	(6,899)	29,772
Total shareholders' equity	5,664,485	5,418,099
	\$ 21,418,210	\$ 22,478,935

See notes to consolidated financial statements.

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share amounts)	Year Ended December 31,		
	2008	2007	2006
REVENUES:			
Property rentals	\$ 2,211,311	\$ 1,977,023	\$ 1,544,741
Tenant expense reimbursements	358,437	323,544	260,772
Fee and other income	127,303	109,949	103,587
Total revenues	2,697,051	2,410,516	1,909,100
EXPENSES:			
Operating	1,070,118	951,582	737,452
Depreciation and amortization	537,427	441,209	319,066
General and administrative	194,027	189,041	180,167
Impairment losses on development projects and cost of acquisitions not consummated	81,447	10,375	
Total expenses	1,883,019	1,592,207	1,236,685
Operating income	814,032	818,309	672,415
Income (loss) applicable to Alexander's	36,671	50,589	(14,530)
Income (loss) applicable to Toys 'R Us	2,380	(14,337)	(47,520)
(Loss) income from partially owned entities	(195,878)	31,891	60,355
Interest and other investment (loss) income, net	(2,682)	226,425	255,391
Interest and debt expense (including amortization of deferred financing costs of \$17,507, \$15,182 and \$11,718)	(586,358)	(569,386)	(394,571)
Net gains on disposition of wholly owned and partially owned assets other than depreciable real estate	7,757	39,493	76,073
Minority interest of partially owned entities	3,263	3,494	1,363
Income before income taxes	79,185	586,478	608,976
Income tax benefit (expense)	204,537	(9,179)	(491)
Income from continuing operations	283,722	577,299	608,485
Income from discontinued operations, net of minority interest	154,442	58,389	32,215
Income before allocation to minority limited partners	438,164	635,688	640,700
Minority limited partners' interest in the Operating Partnership	(21,037)	(47,508)	(58,712)
Perpetual preferred unit distributions of the Operating Partnership	(22,084)	(19,274)	(21,848)
Net income	395,043	568,906	560,140
Preferred share dividends	(57,091)	(57,177)	(57,511)
NET INCOME applicable to common shares	\$ 337,952	\$ 511,729	\$ 502,629
INCOME PER COMMON SHARE - BASIC:			
Income from continuing operations	\$ 1.20	\$ 2.98	\$ 3.31
Income from discontinued operations	1.00	0.39	0.23
Net income per common share	\$ 2.20	\$ 3.37	\$ 3.54
INCOME PER COMMON SHARE - DILUTED:			
Income from continuing operations	\$ 1.16	\$ 2.86	\$ 3.13
Income from discontinued operations	0.98	0.37	0.22
Net income per common share	\$ 2.14	\$ 3.23	\$ 3.35

See notes to consolidated financial statements.

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Preferred Shares	Common Shares	Additional Capital	Earnings in Excess of (Less Than) Distributions	Accumulated Other Comprehensive Income (Loss)	Shareholders Equity	Comprehensive Income (Loss)
(Amounts in thousands, except per share amounts)							
Balance, December 31, 2005	\$ 834,527	\$ 5,675	\$ 4,236,841	\$ 103,061	\$ 83,406	\$ 5,263,510	
Cumulative effect of change in accounting principle				(639,447)		(639,447)	
Balance, January 1, 2006	834,527	5,675	4,236,841	(536,386)	83,406	4,624,063	
Net Income				560,140		560,140	\$ 560,140
Dividends paid on common shares (\$3.79 per share, including \$.54 in special cash dividends)				(537,298)		(537,298)	
Dividends paid on Preferred Shares:							
Series A Preferred Shares (\$3.25 per share)				(604)		(604)	
Series D-10 preferred shares (\$1.75 per share)				(2,800)		(2,800)	
Series E Preferred Shares (\$1.75 per share)				(5,250)		(5,250)	
Series F Preferred Shares (\$1.6875 per share)				(10,125)		(10,125)	
Series G Preferred Shares (\$1.65625 per share)				(13,250)		(13,250)	
Series H Preferred Shares (\$1.6875 per share)				(7,594)		(7,594)	
Series I Preferred Shares (\$1.65625 per share)				(17,888)		(17,888)	
Proceeds from the issuance of common shares		324	1,004,481			1,004,805	
Conversion of Series A Preferred shares to common shares	(5,897)	7	5,890				
Deferred compensation shares and options		(57)	(59,209)	(137,580)		(196,846)	
Common shares issued: Under employees share option plan		110	75,555			75,665	
Upon redemption of Class A Operating Partnership Units, at redemption value		23	56,490			56,513	
In connection with dividend reinvestment plan		1	2,207			2,208	
Change in unrealized net gain on securities available for sale					70,416	70,416	70,416

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Sale of securities available								
for sale				(69,863)	(69,863)	
Common share offering costs		(411)			(411)	
Change in pension plans				2,269		2,269		2,269
Adjustments to reflect Class A Operating								
Partnership Units at redemption value			(630,732	)		(630,732)	
Other	30		536	1		6,735	7,302	6,735
Balance, December 31, 2006	\$ 828,660	\$ 6,083	\$ 4,691,648	\$ (708,634	)	\$ 92,963	\$ 4,910,720	\$ 639,560

See notes to consolidated financial statements.

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - CONTINUED

	Preferred Shares	Common Shares	Additional Capital	Earnings in Excess of (Less Than) Distributions	Accumulated Other Comprehensive Income (Loss)	Shareholders Equity	Comprehensive Income (Loss)
(Amounts in thousands, except per share amounts)							
Balance, December 31, 2006	\$ 828,660	\$ 6,083	\$ 4,691,648	\$ (708,634	)\$ 92,963	\$ 4,910,720	
Net Income				568,906		568,906	\$ 568,906
Dividends paid on common shares (\$3.45 per share)				(524,719	)	(524,719)
Dividends paid on Preferred Shares:							
Series A Preferred Shares (\$3.25 per share)				(270	)	(270)
Series D-10 preferred shares (\$1.75 per share)				(2,800	)	(2,800)
Series E Preferred Shares (\$1.75 per share)				(5,250	)	(5,250)
Series F Preferred Shares (\$1.6875 per share)				(10,125	)	(10,125)
Series G Preferred Shares (\$1.65625 per share)				(13,250	)	(13,250)
Series H Preferred Shares (\$1.6875 per share)				(7,594	)	(7,594)
Series I Preferred Shares (\$1.65625 per share)				(17,888	)	(17,888)
Conversion of Series A Preferred shares to common shares	(3,565	) 4	3,561				
Deferred compensation shares and options		(17	) (36,422	)		(36,439)
Common shares issued:							
Under employees' share option plan		30	34,617			34,647	
Upon redemption of Class A Operating Partnership Units, at redemption value		39	116,046			116,085	
In connection with dividend reinvestment plan		1	2,030			2,031	
Change in unrealized net loss on securities available for sale					(38,842	) (38,842	) (38,842
Sale of securities available for sale					(36,563	) (36,563)
Change in pension plans					895	895	895
Adjustments to reflect Class A Operating Partnership Units at redemption value			467,165			467,165	
Other			72	(1) 11,319	11,390	11,319

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Balance, December 31, 2007	\$ 825,095	\$ 6,140	\$ 5,278,717	\$ (721,625)	\$ 29,772	\$ 5,418,099	\$ 542,278
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See notes to consolidated financial statements.

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VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY - CONTINUED

	Preferred Shares	Common Shares	Additional Capital	Earnings in Excess of (Less Than) Distributions	Accumulated Other Comprehensive Income (Loss)	Shareholders Equity	Comprehensive Income (Loss)
(Amounts in thousands, except per share amounts)							
Balance, December 31, 2007	\$ 825,095	\$ 6,140	\$ 5,278,717	\$ (721,625)	\$ 29,772	\$ 5,418,099	\$
Net Income				395,043		395,043	395,043
Dividends paid on common shares (\$3.65 per share)				(561,981)	)	(561,981))
Dividends paid on Preferred Shares:							
Series A Preferred Shares (\$3.25 per share)				(184)	)	(184))
Series D-10 preferred shares (\$1.75 per share)				(2,800)	)	(2,800))
Series E Preferred Shares (\$1.75 per share)				(5,250)	)	(5,250))
Series F Preferred Shares (\$1.6875 per share)				(10,125)	)	(10,125))
Series G Preferred Shares (\$1.65625 per share)				(13,250)	)	(13,250))
Series H Preferred Shares (\$1.6875 per share)				(7,594)	)	(7,594))
Series I Preferred Shares (\$1.65625 per share)				(17,888)	)	(17,888))
Conversion of Series A Preferred shares to common shares	(1,312)	) 2	1,310				
Deferred compensation shares and options		1	11,410			11,411	
Common shares issued: Under employees' share option plan		7	26,897	(30,345)	)	(3,441))
Upon redemption of Class A Operating Partnership Units, at redemption value		40	82,290			82,330	
In connection with dividend reinvestment plan		1	2,373			2,374	
Change in unrealized net loss on securities available for sale					(20,150)	) (20,150)	) (20,150)
Sale of securities available for sale					6,128	6,128	6,128
Change in pension plans					3,251	3,251	3,251
Adjustments to reflect Class A Operating Partnership Units at redemption value			404,447			404,447	
Conversion of Series F-1 preferred units		4	9,996			10,000	

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Other	24		(60)	1	(25,900)	(25,935)	(25,960)
Balance, December 31, 2008	\$ 823,807	\$ 6,195	\$ 5,817,380	\$ (975,998)	\$ (6,899)	\$ 5,664,485	\$ 358,312		

See notes to consolidated financial statements.

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)	Year Ended December 31,		
	2008	2007	2006
Cash Flows from Operating Activities:			
Net income	\$ 395,043	\$ 568,906	\$ 560,140
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization, including amortization of debt issuance costs	577,338	545,885	413,162
Reversal of H Street deferred tax liability	(222,174)		
Net gain on sale of Americold Realty Trust	(112,690)		
Impairment loss Lexington Realty Trust	107,882		
Amortization of below-market leases, net	(96,176)	(83,250)	(23,814)
Write-off of real estate joint ventures development costs	96,037		
Straight-lining of rental income	(91,060)	(77,699)	(62,655)
Impairment loss marketable equity securities	76,352		
Net gains on sale of real estate	(57,523)	(64,981)	(33,769)
Equity in income of partially owned entities, including Alexander's and Toys	(47,460)	(69,656)	273
Minority limited partners interest in the Operating Partnership	37,127	53,565	58,700
Distributions of income from partially owned entities	44,690	24,044	35,911
Net loss (gain) from derivative positions, including McDonalds, Sears Holdings and GMH	33,740	(113,503)	(153,208)
Perpetual preferred unit distributions of the Operating Partnership	22,084	19,274	21,848
Impairment losses on development projects and costs of acquisitions not consummated	81,447	10,375	
Mezzanine loan loss (reversal) accrual	(10,300)	57,000	
(Gain) loss on early extinguishment of debt and write-off of unamortized financing costs	(9,820)	7,670	33,488
Net gains on dispositions of wholly owned and partially owned assets other than depreciable real estate	(7,757)	(39,493)	(76,073)
Minority interest of partially owned entities	(6,838)	(18,559)	(20,173)
Other non-cash adjustments, including amortization of stock-based compensation	47,764	23,373	2,079
Changes in operating assets and liabilities:			
Accounts receivable, net	(1,646)	(25,877)	24,373
Accounts payable and accrued expenses	(5,207)	(89,961)	60,348
Other assets	(39,831)	(52,478)	(62,224)
Other liabilities	6,790	22,690	46,262
Net cash provided by operating activities	817,812	697,325	824,668
Cash Flows from Investing Activities:			
Development costs and construction in progress	(598,688)	(358,748)	(233,492)
Proceeds from sales of real estate	390,468	297,234	110,388
Distributions of capital from partially owned entities	218,367	22,541	114,041
Additions to real estate	(207,885)	(166,319)	(198,215)
Purchases of marketable securities	(164,886)	(152,683)	(153,914)
Investments in partially owned entities	(156,227)	(271,423)	(233,651)
Proceeds received from repayment of mezzanine loans receivable	52,470	241,289	172,445
Proceeds from sales of, and return of investment in, marketable securities	51,185	112,779	173,027
Acquisitions of real estate and other	(26,318)	(2,811,285)	(1,399,326)
Cash restricted, including mortgage escrows	12,004	11,652	52,268
Deposits in connection with real estate acquisitions, including pre-acquisition costs	(11,719)	(27,702)	(82,753)
Investments in mezzanine loans receivable	(7,397)	(217,081)	(363,374)
Acquisition of trade shows	(6,003)	(10,722)	(17,582)
Cash received upon consolidation of investments in partially owned entities	1,398		
Proceeds received on settlement of derivatives		260,764	135,028
Repayment of officers loans		2,000	8,600
Net cash used in investing activities	(453,231)	(3,067,704)	(1,916,510)
See notes to consolidated financial statements.			

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(Amounts in thousands)	Year Ended December 31,		
	2008	2007	2006
Cash Flows from Financing Activities:			
Proceeds from borrowings	1,721,974	2,954,497	5,151,952
Repayments of borrowings	(993,665)	(868,055)	(1,544,076)
Dividends paid on common shares	(561,981)	(524,719)	(537,298)
Distributions to minority limited partners	(85,419)	(81,065)	(188,052)
Dividends paid on preferred shares	(57,112)	(57,236)	(57,606)
Repurchase of shares related to stock compensation arrangements and associated employee tax withholdings	(31,198)	(43,396)	(201,866)
Proceeds received from exercise of employee share options	29,377	35,083	77,873
Debt issuance costs	(14,299)	(14,360)	(37,192)
Purchase of marketable securities in connection with the legal defeasance of mortgage notes payable		(109,092)	(636,293)
Proceeds from issuance of common shares			1,004,394
Redemption of perpetual preferred shares and units			(45,000)
Proceeds from issuance of preferred shares and units			43,819
Net cash provided by financing activities	7,677	1,291,657	3,030,655
Net increase (decrease) in cash and cash equivalents	372,258	(1,078,722)	1,938,813
Cash and cash equivalents at beginning of year	1,154,595	2,233,317	294,504
Cash and cash equivalents at end of year	\$ 1,526,853	\$ 1,154,595	\$ 2,233,317
Supplemental Disclosure of Cash Flow Information:			
Cash payments for interest (including capitalized interest of \$63,063, \$53,648, and \$26,195)	\$ 658,376	\$ 653,811	\$ 454,391
Cash payments for taxes	\$ 22,005	\$ 36,489	\$ 8,766
Non-Cash Transactions:			
Adjustments to reflect redeemable Class A operating partnership units at redemption value	\$ 404,447	\$ 467,165	\$ (630,732)
Conversion of Class A operating partnership units to common shares, at redemption value	82,230	116,085	56,513
Unrealized (loss) gain on securities available for sale	(20,150)	38,842	70,416
Financing assumed in acquisitions		1,405,654	303,703
Marketable securities transferred in connection with the legal defeasance of mortgage notes payable		109,092	636,293
Mortgage notes payable legally defeased		104,571	612,270
Operating Partnership units issued in connection with acquisitions		62,059	
Increase in assets and liabilities resulting from the consolidation of investments previously accounted for on the equity method (Beverly Connection in November 2008 and H Street in April 2007) :			
Real estate, net	197,600	342,764	
Restricted cash	2,287	369	
Other assets	3,393	11,648	
Notes and mortgages payable	100,000	55,272	
Accounts payable and accrued expenses	2,069	3,101	
Deferred credit		2,407	
Deferred tax liabilities		112,797	
Other liabilities		71	

See notes to consolidated financial statements.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Business

Vornado Realty Trust (Vornado) is a fully-integrated real estate investment trust (REIT) and conducts its business through Vornado Realty L.P., a Delaware limited partnership (the Operating Partnership). Vornado is the sole general partner of, and owned approximately 90.6% of the common limited partnership interest in, the Operating Partnership at December 31, 2008. All references to we, us, our, the Company and Vornado refer to Vornado Realty Trust and its consolidated subsidiaries, including the Operating Partnership.

As of December 31, 2008, we own directly or indirectly:

Office Properties:

(i) all or portions of 28 office properties aggregating approximately 16.1 million square feet in the New York City metropolitan area (primarily Manhattan);

(ii) all or portions of 84 office properties aggregating 17.7 million square feet in the Washington, DC / Northern Virginia areas;

(iii) a 70% controlling interest in 555 California Street, a three-building complex aggregating 1.8 million square feet in San Francisco's financial district;

Retail Properties:

(iv) 176 retail properties in 21 states, Washington, DC and Puerto Rico aggregating approximately 21.9 million square feet, including 3.7 million square feet owned by tenants on land leased from us;

Merchandise Mart Properties:

(v) 8 properties in 5 states and Washington, DC aggregating approximately 8.9 million square feet of showroom and office space, including the 3.5 million square foot Merchandise Mart in Chicago;

Toys R Us, Inc.:

(vi) a 32.7% interest in Toys R Us, Inc. which owns and/or operates 1,561 stores worldwide, including 847 stores in the United States and 714 toy stores internationally;

Other Real Estate Investments:

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(vii) 32.5% of the common stock of Alexander's, Inc. (NYSE: ALX), which has seven properties in the greater New York metropolitan area;

(viii) 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;

(ix) mezzanine loans to entities that have significant real estate assets; and

(x) interests in other real estate, including interests in office, industrial and retail properties net leased to major corporations; 6 warehouse/industrial properties in New Jersey containing approximately 1.2 million square feet; and other investments and marketable securities.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Vornado Realty Trust and its majority-owned subsidiary, Vornado Realty L.P. All significant inter-company amounts have been eliminated. We account for unconsolidated partially owned entities on the equity method of accounting. Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ materially from those estimates.

Significant Accounting Policies

Real Estate: Real estate is carried at cost, net of accumulated depreciation and amortization. Betterments, major renewals and certain costs directly related to the acquisition, improvement and leasing of real estate are capitalized. Maintenance and repairs are charged to operations as incurred. For redevelopment of existing operating properties, the net book value of the existing property under redevelopment plus the cost for the construction and improvements incurred in connection with the redevelopment are capitalized to the extent the capitalized costs of the property do not exceed the estimated fair value of the redeveloped property when complete. If the cost of the redeveloped property, including the undepreciated net book value of the property carried forward, exceeds the estimated fair value of redeveloped property, the excess is charged to expense. Depreciation is provided on a straight-line basis over the assets' estimated useful lives which range from 7 to 40 years. Tenant allowances are amortized on a straight-line basis over the lives of the related leases, which approximate the useful lives of the assets. Additions to real estate include interest expense capitalized during construction of \$63,063,000 and \$53,648,000, for the years ended December 31, 2008 and 2007, respectively.

Upon the acquisition of real estate, we assess the fair value of acquired assets (including land, buildings and improvements, and identified intangibles such as above and below-market leases and acquired in-place leases and customer relationships) and acquired liabilities in accordance with Statement of Financial Accounting Standards (SFAS) 14B *Business Combinations* and SFAS 142, *Goodwill and Other Intangible Assets*, and we allocate purchase price based on these assessments. We assess fair value based on estimated cash flow projections that utilize appropriate discount and capitalization rates and available market information. Estimates of future cash flows are based on a number of factors including the historical operating results, known trends, and market/economic conditions that may affect the property.

Our properties, including any related intangible assets, are individually reviewed for impairment if events or circumstances change indicating that the carrying amount of the assets may not be recoverable. An impairment exists when the carrying amount of an asset exceeds the aggregate projected future cash flows over our anticipated holding period on an undiscounted basis. An impairment loss is measured based on the excess of the property's carrying amount over its estimated fair value. Our impairment analysis is based on our plans for the asset and the market information available to our management at the time the analysis is prepared. If our estimates of the projected future cash flows, our anticipated holding period for properties, or the estimated fair value of properties change based on market conditions or otherwise, our evaluation of impairment charges may be different and such differences could be material to our consolidated financial statements. The evaluation of anticipated cash flows is subjective and is based, in part, on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results. Plans to hold properties over longer periods decrease the likelihood of recording impairment losses. In the year ended December 31, 2008, we recognized an aggregate of \$78,069,000 of non-cash impairment charges on our wholly owned real estate assets related to certain development projects. No impairment charges were recognized in the years ended December 31, 2007 and 2006.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Basis of Presentation and Significant Accounting Policies continued

Partially Owned Entities: In determining whether we have a controlling interest in a partially owned entity and the requirement to consolidate the accounts of that entity, we consider factors such as ownership interest, board representation, management representation, authority to make decisions, and contractual and substantive participating rights of the partners/members as well as whether the entity is a variable interest entity in which we will absorb the majority of the entity's expected losses, if they occur, or receive the majority of the expected residual returns, if they occur, or both. We have concluded that we do not control a partially owned entity, despite an ownership interest of 50% or greater, if the entity is not considered a variable interest entity and the approval of all of the partners/members is contractually required with respect to major decisions, such as operating and capital budgets, the sale, exchange or other disposition of real property, the hiring of a chief executive officer, the commencement, compromise or settlement of any lawsuit, legal proceeding or arbitration or the placement of new or additional financing secured by assets of the venture. This is the case with respect to our 50% interests in Monmouth Mall, MartParc Wells, MartParc Orleans, 478-486 Broadway, 968 Third Avenue, West 57th Street properties and 825 Seventh Avenue. We account for investments on the equity method when the requirements for consolidation are not met, and we have significant influence over the operations of the investee. Equity method investments are initially recorded at cost and subsequently adjusted for our share of investees' net income or loss and cash contributions and distributions made during the year. Investments that do not qualify for consolidation or equity method accounting are accounted for on the cost method.

Our investments in partially owned entities are reviewed for impairment, if events or circumstances change indicating that the carrying amount of our investments may not be recoverable. The ultimate realization of our investments in partially owned entities is dependent on a number of factors, including the performance of each investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment is other than temporary. In the year ended December 31, 2008, we recognized \$203,919,000 of non-cash impairment charges related to investments in partially owned entities, of which \$107,882,000 represents our investment in Lexington Realty Trust and the remainder represents our share of certain ventures' development costs. No impairment charges were recognized in the years ended December 31, 2007 and 2006.

Identified Intangibles: We record acquired intangible assets (including above-market leases, customer relationships and in-place leases) and acquired intangible liabilities (including below market leases) at their estimated fair value separate and apart from goodwill. We amortize identified intangible assets and liabilities that are determined to have finite lives over the period the assets and liabilities are expected to contribute directly or indirectly to the future cash flows of the property or business acquired. Intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized if the carrying amount of an intangible asset is not recoverable and its carrying amount exceeds its estimated fair value.

As of December 31, 2008 and 2007, the carrying amounts of identified intangible assets, a component of other assets on our consolidated balance sheets, were \$525,950,000 and \$563,359,000, respectively. In addition, the carrying amounts of identified intangible liabilities, a component of deferred credit on our consolidated balance sheets, were \$719,822,000 and \$814,098,000, respectively.

Mezzanine Loans Receivable: We invest in mezzanine loans to entities which have significant real estate assets. These investments, which are subordinate to the mortgage loans secured by the real property, are generally secured by pledges of the equity interests of the entities owning the underlying real estate. We record these investments at the stated principal amount net of any unamortized discount or premium. We accrete or amortize any discounts or premiums over the life of the related loan receivable utilizing the effective interest method, or straight-line method if the result is not materially different. We evaluate the collectibility of both interest and principal of each of our loans, if circumstances warrant, to determine whether they are impaired. A loan is impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due according to the existing contractual terms. When a loan is impaired, the amount of the loss accrual is calculated by

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comparing the carrying amount of the investment to the estimated fair value of the loan or, as a practical expedient, to the value of the collateral if the loan is collateral dependent. In the year ended December 31, 2007, we recognized a \$57,000,000 non-cash impairment charge on one of our mezzanine loans. Upon sale of a sub-participation in that loan during 2008, we reversed \$10,300,000 of the charge recognized in 2007.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Basis of Presentation and Significant Accounting Policies continued

Cash and Cash Equivalents: Cash and cash equivalents consist of highly liquid investments purchased with original maturities of three months or less. Cash and cash equivalents do not include cash escrowed under loan agreements and cash restricted in connection with an officer's deferred compensation payable. The majority of our cash and cash equivalents are held at major commercial banks which may at times exceed the Federal Deposit Insurance Corporation limit. We have not experienced any losses to date on our invested cash.

Allowance for Doubtful Accounts: We periodically evaluate the collectibility of amounts due from tenants and maintain an allowance for doubtful accounts for estimated losses resulting from the inability of tenants to make required payments under the lease agreements. We also maintain an allowance for receivables arising from the straight-lining of rents. This receivable arises from earnings recognized in excess of amounts currently due under the lease agreements. Management exercises judgment in establishing these allowances and considers payment history and current credit status in developing these estimates. As of December 31, 2008 and 2007, we had \$32,834,000 and \$19,151,000, respectively, in allowances for doubtful accounts. In addition, as of December 31, 2008 and 2007, we had \$5,773,000 and \$3,076,000, respectively, in allowances for receivables arising from the straight-lining of rents.

Marketable Securities: We classify debt and equity securities which we intend to hold for an indefinite period of time as securities available-for-sale; equity securities we intend to buy and sell on a short term basis as trading securities; and mandatorily redeemable preferred stock investments which we intend to hold to maturity as securities held to maturity. Unrealized gains and losses on trading securities are included in earnings. Unrealized gains and losses on securities available-for-sale are included as a component of shareholders' equity and other comprehensive income. Realized gains or losses on the sale of securities are recorded based on the weighted average cost of such securities.

We evaluate our portfolio of marketable securities for impairment as of each reporting period. For each of the securities in our portfolio with unrealized losses, we review the underlying cause of the decline in value and the estimated recovery period, as well as the severity and duration of the decline. In our evaluation, we consider our ability and intent to hold these investments for a reasonable period of time sufficient for us to recover our cost basis. We also evaluate the near-term prospects for each of these investments in relation to the severity and duration of the decline. In the year ended December 31, 2008, we recognized an aggregate of \$76,352,000 of non-cash impairment charges related to investments in marketable securities, which is included as a component of interest and other investment (loss) income, net on our consolidated statement of income. Our conclusions were based on the severity and duration of the decline in the market value (fair value pursuant to SFAS 157) of these securities and our inability to forecast a recovery in the near term. No impairment charges were recognized in the years ended December 31, 2007 and 2006.

At December 31, 2008 and 2007, our marketable equity securities had an aggregate carrying amount of \$120,499,000 and \$215,134,000, and an aggregate fair value of \$118,438,000 and \$226,682,000, respectively. Accordingly, net unrealized (losses) gains were (\$2,061,000) and \$11,548,000 as of December 31, 2008 and 2007, respectively. At December 31, 2008 and 2007, our held-to-maturity securities had an aggregate carrying amount of \$215,884,000 and \$96,310,000, and an aggregate fair value of \$164,728,000 and \$96,310,000, respectively.

Deferred Charges: Direct financing costs are deferred and amortized over the terms of the related agreements as a component of interest expense. Direct costs related to successful leasing activities are capitalized and amortized on a straight-line basis over the lives of the related leases. All other deferred charges are amortized on a straight-line basis, which approximates the effective interest rate method, in accordance with the terms of the agreements to which they relate.

Fair Value of Financial Instruments: We have estimated the fair value of all financial instruments reflected in the accompanying consolidated balance sheets at amounts which are based upon an interpretation of available market information and valuation methodologies (including discounted cash flow analyses with regard to mezzanine loans and debt). While we chose not to elect the fair value option prescribed by Statement No.159, *The Fair Value Option for Financial Assets and Liabilities* (SFAS 159), for our financial assets and liabilities that had not been previously measured at fair value, the aggregate fair value of our mezzanine loans receivable was less than its aggregate carrying amount by approximately \$55,452,000 as of December 31, 2008 and approximated its carrying amount at December 31, 2007. As of December 31, 2008, the estimated fair value of our consolidated debt was less than its carrying amount by approximately \$1,177,806,000. As of December 31, 2007, the carrying amount of our consolidated debt exceeded its fair value by approximately \$49,768,000. Such fair value estimates are not necessarily indicative of the amounts that would be realized upon disposition of our financial instruments.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Basis of Presentation and Significant Accounting Policies continued

Revenue Recognition: We have the following revenue sources and revenue recognition policies:

Base Rent income arising from tenant leases. These rents are recognized over the non-cancelable term of the related leases on a straight-line basis which includes the effects of rent steps and rent abatements under the leases. We commence rental revenue recognition when the tenant takes possession of the leased space and the leased space is substantially ready for its intended use. In addition, in circumstances in which we provide a tenant improvement allowance for improvements that are owned by the tenant, we recognize the allowance as a reduction of rental revenue on a straight-line basis over the term of the lease.

Percentage Rent income arising from retail tenant leases that is contingent upon the sales of the tenant exceeding a defined threshold. These rents are recognized in accordance with Staff Accounting Bulletin No. 104: *Revenue Recognition*, which states that this income is to be recognized only after the contingency has been removed (i.e., sales thresholds have been achieved).

Hotel Revenue income arising from the operation of the Hotel Pennsylvania which consists of rooms revenue, food and beverage revenue, and banquet revenue. Income is recognized when rooms are occupied. Food and beverage and banquet revenue is recognized when the services have been rendered.

Trade Shows Revenue income arising from the operation of trade shows, including rentals of booths. This revenue is recognized when the trade shows have occurred.

Expense Reimbursements revenue arising from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred.

Management, Leasing and Other Fees income arising from contractual agreements with third parties or with partially owned entities. This revenue is recognized as the related services are performed under the respective agreements.

Derivative Instruments and Hedging Activities: SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), as amended and interpreted, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. As required by SFAS 133, we record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

For derivatives designated as fair value hedges, changes in the fair value of the derivative and the hedged item related to the hedged risk are recognized in earnings. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (loss) (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings.



VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Basis of Presentation and Significant Accounting Policies continued

Income Taxes: We operate in a manner intended to enable us to continue to qualify as a REIT under Sections 856-860 of the Internal Revenue Code of 1986, as amended. Under those sections, a REIT which distributes at least 90% of its REIT taxable income as a dividend to its shareholders each year and which meets certain other conditions will not be taxed on that portion of its taxable income which is distributed to its shareholders. We distribute to shareholders 100% of taxable income and therefore, no provision for Federal income taxes is required. Dividend distributions for the year ended December 31, 2008 were characterized, for Federal income tax purposes, as 70.81% ordinary income and 29.19% return of capital. Dividend distributions for the year ended December 31, 2007 were characterized, for Federal income tax purposes, as 61.6% ordinary income and 38.4% long-term capital gain income. Dividend distributions for the year ended December 31, 2006 were characterized, for Federal income tax purposes, as 29.0% ordinary income, 14.8% long-term capital gain income and 56.2% return of capital.

We have elected to treat certain consolidated subsidiaries, and may in the future elect to treat newly formed subsidiaries, as taxable REIT subsidiaries pursuant to an amendment to the Internal Revenue Code that became effective January 1, 2001. Taxable REIT subsidiaries may participate in non-real estate related activities and/or perform non-customary services for tenants and are subject to Federal and State income tax at regular corporate tax rates. Our taxable REIT subsidiaries had a combined current income tax liability of approximately \$21,357,000 and \$15,361,000 for the years ended December 31, 2008 and 2007, respectively, and have immaterial differences between the financial reporting and tax basis of assets and liabilities.

In connection with purchase accounting for H Street, in July 2005 and April 2007 we recorded an aggregate of \$222,174,000 of deferred tax liabilities representing the differences between the tax basis and the book basis of the acquired assets and liabilities multiplied by the effective tax rate. We were required to record these deferred tax liabilities because H Street and its partially owned entities were operated as C Corporations at the time they were acquired. As of January 16, 2008, we had completed all of the actions necessary to enable these entities to elect REIT status effective for the tax year beginning on January 1, 2008. Consequently, in the first quarter of 2008, we reversed the deferred tax liabilities and recognized an income tax benefit of \$222,174,000 in our consolidated statement of income.

The following table reconciles net income to estimated taxable income for the years ended December 31, 2008, 2007 and 2006.

(Amounts in thousands)	2008	2007	2006
Net income applicable to common shares	\$337,952	\$511,729	\$502,629
Book to tax differences (unaudited):			
Depreciation and amortization	233,426	145,131	118,364
Reversal of deferred tax liability	(202,267)		
Straight-line rent adjustments	(82,901)	(70,450)	(56,690)
Stock options expense	(71,995)	(88,752)	(220,043)
Derivatives	43,218	131,711	(25,726)
Earnings of partially owned entities	(50,855)	12,093	72,534
Net gains on sale of real estate	3,687	(57,386)	(22,699)
Compensation deduction for units held in Rabbi Trust			(171,356)
Sears Canada dividend			(72,706)
Other, net	84,124	37,571	(21,048)
Estimated taxable income	\$294,389	\$621,647	\$103,259

The net basis of our assets and liabilities for tax reporting purposes is approximately \$3.4 billion lower than the amount reported in our consolidated financial statements.



VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Basis of Presentation and Significant Accounting Policies continued

Income Per Share: Basic income per share is computed based on weighted average shares outstanding. Diluted income per share considers the effect of all potentially dilutive share equivalents, including outstanding employee stock options, restricted shares, warrants and convertible or redeemable securities.

Stock-Based Compensation: Stock-based compensation consists of awards to certain employees and officers and consists of stock options, restricted stock, restricted Operating Partnership units and out-performance plan awards. The terms of each of these awards are described in Note 11. Stock-Based Compensation. We account for all stock-based compensation in accordance with SFAS No. 123R, *Share-Based Payment* (SFAS 123R).

Stock option awards

We determine the value of stock option awards, using a binomial valuation model and appropriate market assumptions adjusted to include an estimated forfeiture factor which is based on our past history. Compensation expense for stock option awards is recognized on a straight-line basis over the vesting period, which is generally five years.

Restricted stock and Operating Partnership unit awards

Restricted stock awards are valued using the average of the high and low market price of our common shares on the NYSE on the date of grant, adjusted to include an estimated forfeiture factor which is based on our past history. Compensation expense is recognized on a straight-line basis over the vesting period, which is generally three to five years. Dividends paid on unvested shares are charged to retained earnings. Dividends on shares that are cancelled or terminated prior to vesting are charged to compensation expense in the period they are cancelled or terminated.

Restricted Operating Partnership unit awards are also valued using the average of the high and low market price of our common shares on the NYSE on the date of grant, adjusted to include an estimated forfeiture factor which is based on history. Compensation expense is recognized over the five year vesting period using a graded vesting attribution model as these awards are subject to the satisfaction of a performance condition. Dividends paid on unvested units are charged to minority interest expense on our consolidated statements of operations. Dividends on units that are cancelled or terminated prior to the satisfaction of the performance condition and vesting are charged to compensation expense in the period they are cancelled or terminated.

Out-performance plan awards

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Out-performance plan awards are valued using a risk-free valuation model and appropriate market assumptions as of the date of grant, adjusted to include an estimated forfeiture factor which is based on our past history. Compensation expense is recognized over five years using a graded vesting attribution model as these awards are subject to the satisfaction of certain market and performance conditions, in addition to vesting.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Basis of Presentation and Significant Accounting Policies continued

Recently Issued Accounting Literature

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement No. 157 *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States of America and expands disclosures about fair value measurements. SFAS 157 was effective for our financial assets and liabilities on January 1, 2008. The FASB has deferred the implementation of the provisions of SFAS 157 relating to certain non-financial assets and liabilities until January 1, 2009. This standard did not materially affect how we determine fair value, but resulted in certain additional disclosures. SFAS 157 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels: Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities; Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3 – unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible as well as consider counterparty credit risk in our assessment of fair value. Financial assets and liabilities measured at fair value in our consolidated financial statements primarily consist of (i) marketable securities, (ii) the assets of our deferred compensation plan (primarily marketable securities and equity investments in limited partnerships), for which there is a corresponding liability on our consolidated balance sheets and (iii) Class A units of the Operating Partnership, held by third-parties. Financial assets and liabilities measured at fair value as of December 31, 2008 are presented in the table below based on their level in the fair value hierarchy.

(Amounts in thousands)	Total	Fair Value Hierarchy ⁽¹⁾		
		Level 1	Level 2	Level 3
Marketable securities	\$ 118,438	\$ 118,438	\$	\$
Deferred compensation plan assets (included in other assets)	69,945	35,769		34,176
Interest rate caps (included in other assets)	25		25	
Total Assets	\$ 188,408	\$ 154,207	\$ 25	\$ 34,176
Class A units (included in minority interest)	\$ 882,740	\$	\$ 882,740	\$
Deferred compensation plan liabilities	\$ 69,945	\$ 35,769	\$	\$ 34,176

(1) We chose not to elect the fair value option prescribed by SFAS 159, for our financial assets and liabilities that had not been previously measured at fair value. These financial assets and liabilities include our outstanding debt, accounts receivable, accounts payable and investments in partially owned entities.

The fair value of Level 3 – deferred compensation plan assets – represents equity investments in certain limited partnerships, for which there is a corresponding Level 3 liability to the plan’s participants. The following is a summary of changes in Level 3 deferred compensation plan assets and liabilities, for the year ended December 31, 2008.

(Amounts in thousands)	Beginning Balance	Total Realized/ Unrealized Losses	Purchases, Sales, Other Settlements and Issuances, net	Ending Balance
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For the year ended				
December 31, 2008	\$ 50,578	\$ (15,407) \$ (995) \$ 34,176

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Basis of Presentation and Significant Accounting Policies continued

In February 2007, the FASB issued SFAS 159, which permits companies to measure many financial instruments and certain other items at fair value. SFAS 159 was effective on January 1, 2008. We did not elect the fair value option for any of our existing financial instruments on the effective date and have not determined whether we will elect this option for any eligible financial instruments we acquire in the future.

In December 2007, the FASB issued Statement No. 141R, *Business Combinations* (SFAS 141R). SFAS 141R broadens the guidance of SFAS 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R also broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations; and acquisition related costs will generally be expensed rather than included as part of the basis of the acquisition. SFAS 141R expands required disclosures to improve the ability to evaluate the nature and financial effects of business combinations. SFAS 141R is effective for all transactions entered into on or after January 1, 2009. The adoption of this standard on January 1, 2009 could materially impact future financial results to the extent that we acquire significant amounts of real estate, in part because acquisition costs will be expensed as incurred compared to our current practice of capitalizing such costs and amortizing them over the estimated useful life of the assets acquired.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51* (SFAS 160). SFAS 160 requires a noncontrolling interest in a subsidiary to be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest to be identified in the consolidated financial statements. SFAS 160 also calls for consistency in the manner of reporting changes in the parent's ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. As of December 31, 2008, as part of our preparation for the adoption of SFAS 160, which is effective for us on January 1, 2009, we have retroactively adopted the measurement provisions of EITF Topic D-98, *Classification and Measurement of Redeemable Securities*. Upon adoption, we adjusted the carrying amounts of the Class A units held by third parties, a component of minority interest on our consolidated balance sheets, by recognizing a \$639,447,000 increase to the January 1, 2006 balance of minority interest, and a corresponding decrease in earnings in excess of (less than) distributions, which was accounted for as a cumulative effect adjustment on January 1, 2006. Subsequent adjustments to the carrying amounts of the Class A units, to reflect the change in their redemption value at the end of each reporting period, were recorded to additional capital. The adoption of SFAS 160 on January 1, 2009, will not result in the re-classification of the Class A units held by third parties to a component within shareholders' equity.

In March 2008, the FASB issued Statement No. 161, *Disclosures about Derivative Instruments and Hedging Activities - an Amendment of FASB Statement No. 133* (SFAS 161). SFAS 161 requires enhanced disclosures related to derivative instruments and hedging activities, including disclosures regarding how an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS 133, and the impact of derivative instruments and related hedged items on an entity's financial position, financial performance and cash flows. SFAS 161 is effective on January 1, 2009. We believe that the adoption of this standard on January 1, 2009 will not have a material effect on our consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. Basis of Presentation and Significant Accounting Policies continued

In May 2008, the FASB issued Staff Position No. APB 14-1, *Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion (Including Partial Cash Settlement)*, (the FSP), which is effective for us on January 1, 2009 and requires retroactive application. The adoption of this FSP will affect the accounting for our convertible and exchangeable senior debentures and Series D-13 convertible preferred units. The FSP requires the initial proceeds from the sale of our convertible and exchangeable senior debentures and Series D-13 convertible preferred units to be allocated between a liability component and an equity component. The resulting discount will be amortized using the effective interest method over the period the debt is expected to remain outstanding as additional interest expense. The adoption of the FSP on January 1, 2009 will result in the recognition of an aggregate unamortized debt discount of \$139,937,000 (as of December 31, 2008) in our consolidated balance sheets and additional interest expense in our consolidated statements of income. Our current estimate of the incremental interest expense, net of minority interest, for each reporting period is as follows:

(Amounts in thousands)	
For the year ended December 31:	
2005	\$ 3,401
2006	6,062
2007	28,191
2008	36,348
2009	37,379
2010	39,612
2011	40,587
2012	8,219

In May 2008, the FASB issued Statement No. 163, *Accounting for Financial Guarantee Insurance Contracts* (SFAS 163). SFAS 163 was issued to decrease inconsistencies within Statement No. 60, *Accounting and Reporting by Insurance Enterprises*, and clarify how it applies to financial guarantee insurance contracts issued by insurance enterprises, including the recognition of premium revenue and claim liabilities. SFAS 163 also requires expanded disclosures about financial guarantee insurance contracts. SFAS 163 is effective on January 1, 2009. We believe that the adoption of this standard on January 1, 2009 will not have a material effect on our consolidated financial statements.

In June 2008, the FASB ratified EITF Issue 07-5, *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock* (EITF 07-5). Paragraph 11(a) of SFAS 133 specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the company's own stock and (b) classified in stockholders' equity in the statement of financial position would not be considered a derivative financial instrument. EITF 07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer's own stock and thus able to qualify for the SFAS 133 paragraph 11(a) scope exception. EITF 07-5 is effective on January 1, 2009. We are currently evaluating the impact of the adoption of this standard on our consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Acquisitions and Investments

There were no material real estate acquisitions or investments during 2008. We completed approximately \$4,045,400,000 of real estate acquisitions and investments in 2007. We record the assets (primarily land, building, in-place and above market leases) and liabilities (primarily mortgage debt and below market leases) acquired in real estate acquisitions at their estimated fair values. Below are the details of our 2007 acquisitions.

New York Office:

100 West 33rd Street, New York City / Manhattan Mall

On January 10, 2007, we acquired the 100 West 33rd Street, New York City / Manhattan Mall for approximately \$689,000,000 in cash. This mixed-use property is located on the entire Sixth Avenue block-front between 32nd and 33rd Streets in Manhattan and contains approximately 1,000,000 square feet, including 845,000 square feet of office space and 164,000 square feet of retail space. Included as part of the acquisition were 250,000 square feet of additional air rights. The property is adjacent to our Hotel Pennsylvania. At closing, we completed a \$232,000,000 financing secured by the property, which bears interest at LIBOR plus 0.55% and matures in two years with three one-year extension options. The operations of the office component of the property are included in the New York Office segment and the operations of the retail component are included in the Retail segment. We consolidate the accounts of this property into our consolidated financial statements from the date of acquisition.

1290 Avenue of the Americas and 555 California Street

On May 24, 2007, we acquired a 70% controlling interest in 1290 Avenue of the Americas, a 2,000,000 square foot Manhattan office building located on the block-front between 51st and 52nd Street on Avenue of the Americas, and the three-building 555 California Street complex (555 California Street) containing 1,800,000 square feet, known as the Bank of America Center, located at California and Montgomery Streets in San Francisco's financial district. The purchase price for our 70% interest in the real estate was approximately \$1.8 billion, consisting of \$1.0 billion of cash and \$797,000,000 of existing debt. Our share of the debt was comprised of \$308,000,000 secured by 1290 Avenue of the Americas and \$489,000,000 secured by 555 California Street. Our 70% interest was acquired through the purchase of all of the shares of a group of foreign companies that own, through U.S. entities, the 1% sole general partnership interest and a 69% limited partnership interest in the partnerships that own the two properties. The remaining 30% limited partnership interest is owned by Donald J. Trump. The operations of 1290 Avenue of the Americas are included in the New York Office segment and the operations of 555 California Street are included in the Other segment. We consolidate the accounts of these properties into our consolidated financial statements from the date of acquisition.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Acquisitions and Investments - continued

Washington, DC Office:

H Street Building Corporation (H Street)

In July 2005, we acquired H Street, which owns a 50% interest in real estate assets located in Pentagon City, Virginia and Washington, DC. On April 30, 2007, we acquired the corporations that own the remaining 50% interest in these assets for approximately \$383,000,000, consisting of \$322,000,000 in cash and \$61,000,000 of existing mortgages. These assets include twin office buildings located in Washington, DC, containing 577,000 square feet, and assets located in Pentagon City, Virginia, comprising 34 acres of land leased to three residential and retail operators, a 1,680 unit high-rise apartment complex and 10 acres of vacant land. Beginning on April 30, 2007, we consolidated the accounts of these entities into our consolidated financial statements and no longer account for them on the equity method.

Further, we agreed to sell approximately 19.6 of the 34 acres of land to one of the existing ground lessees in two closings over a two-year period for approximately \$220,000,000. On May 11, 2007, we closed on the sale of 11 of the 19.6 acres for \$104,000,000 and received \$5,000,000 in cash and a \$99,000,000 short-term note. On September 28, 2007, the buyer pre-paid the note in cash and we recognized a net gain on sale of \$4,803,000.

BNA Complex

On August 9, 2007, we acquired a three building complex from The Bureau of National Affairs, Inc. (BNA) for \$111,000,000 in cash. The complex contains approximately 300,000 square feet and is located in Washington's West End between Georgetown and the Central Business District. We plan to convert two of these buildings into rental apartments. We consolidate the accounts of these properties into our consolidated financial statements from the date of acquisition.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Acquisitions and Investments continued

Retail:

Bruckner Plaza, Bronx, New York

On January 11, 2007, we acquired the Bruckner Plaza shopping center, containing 386,000 square feet, for \$165,000,000 in cash. Also included as part of the acquisition was an adjacent parcel which is ground leased to a third party. The property is located on Bruckner Boulevard in the Bronx, New York. We consolidated the accounts of this property into our consolidated financial statements from the date of acquisition.

Shopping Center Portfolio Acquisition

On June 26, 2007, we entered into an agreement to acquire a portfolio of 15 shopping centers aggregating approximately 1.9 million square feet for an aggregate purchase price of \$351,000,000. The properties are located primarily in Northern New Jersey and Long Island, New York. We have completed the acquisition of nine of these properties for an aggregate purchase price of \$250,478,000, consisting of \$109,279,000 in cash, \$49,599,000 in Vornado Realty L.P. Series G-1 through G-4 convertible preferred units, \$12,460,000 of Vornado Realty L.P. Class A units and \$79,140,000 of existing mortgage debt. In December 2007, we determined not to complete the acquisition of the remaining six properties and expensed \$2,700,000 which is included as a component of impairment losses on development projects and costs of acquisitions not consummated on our consolidated statement of income for the year ended December 31, 2007.

Other:

India Real Estate Ventures

In August 2008, we entered into a joint venture with Reliance Industries Limited (Reliance) (BSE: RIL), under which each partner has an equal ownership interest, to acquire, develop, and operate retail shopping centers across key cities in India. We are also a partner in four other joint ventures established to develop real estate in India's major cities. During the year ended December 31, 2008, we funded an aggregate of \$50,387,000 in cash to our India ventures, including \$7,500,000 to the Reliance venture and \$34,077,000 to the India Property Fund L.P. (IPF). As of December 31, 2008, our aggregate investment in all of these ventures was \$89,295,000 and our remaining capital commitment is approximately \$192,000,000. At December 31, 2008 and 2007, our ownership interest in IPF was 36.5% and 50.6%, respectively. Based on the reduction of our ownership interest in 2008, we no longer consolidate the accounts of IPF into our consolidated financial statements and beginning on January 1, 2008 we account for IPF under the equity method.

Filene s, Boston, Massachusetts

On January 26, 2007, a joint venture in which we have a 50% interest, acquired the Filene's property located in the Downtown Crossing district of Boston, Massachusetts for approximately \$100,000,000 in cash, of which our share was \$50,000,000. We account for our investment in the joint venture on the equity method. In the fourth quarter of 2008, the venture deferred the development of this project and accordingly, we wrote-off \$37,000,000 for our 50% share of development costs, which is included as a component of (loss) income from partially owned entities on our consolidated statement of income.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Discontinued Operations

In accordance with the provisions of SFAS 144, *Accounting for the Impairment and Disposal of Long-Lived Assets*, we have reclassified the revenues and expenses of properties and businesses sold or to be sold to income from discontinued operations, net of minority interest and the related assets and liabilities to assets related to discontinued operations and liabilities related to discontinued operations for all periods presented in the accompanying consolidated financial statements.

The net gains resulting from the disposition of the properties below are included in income from discontinued operations, net of minority interest on our consolidated statements of income.

424 Sixth Avenue

On March 13, 2006, we sold 424 Sixth Avenue, a 10,000 square foot retail property located in New York City, for \$22,000,000, which resulted in a net gain of \$9,218,000.

33 North Dearborn Street

On March 14, 2006, we sold 33 North Dearborn Street, a 336,000 square foot office building located in Chicago, Illinois, for \$46,000,000, which resulted in a net gain of \$4,835,000. All of the proceeds from the sale have been reinvested in tax-free like-kind exchange investments in accordance with Section 1031.

1919 South Eads Street

On June 22, 2006, we sold 1919 South Eads Street, a 96,000 square foot office building located in Arlington, Virginia, for \$38,400,000, which resulted in a net gain of \$17,609,000. All of the proceeds from the sale have been reinvested in tax-free like-kind exchange investments in accordance with Section 1031.

Vineland, New Jersey Shopping Center Property

On July 16, 2007, we sold our Vineland, New Jersey shopping center property for \$2,774,000 in cash, which resulted in a net gain of \$1,708,000.

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Crystal Mall Two

On August 9, 2007, we sold Crystal Mall Two, a 277,000 square foot office building located at 1801 South Bell Street in Crystal City for \$103,600,000, which resulted in a net gain of \$19,893,000. All of the proceeds from the sale have been reinvested in tax-free like-kind exchange investments in accordance with Section 1031.

Arlington Plaza

On October 17, 2007, we sold Arlington Plaza, a 188,000 square foot office building located in Arlington, Virginia for \$71,500,000, resulting in a net gain of \$33,900,000.

Americold Realty Trust (Americold)

On March 31, 2008, we sold our 47.6% interest in Americold, our Temperature Controlled Logistics segment for \$220,000,000 in cash, which resulted in a net gain of \$112,690,000.

Tysons Dulles Plaza

On June 6, 2008, we sold our Tysons Dulles Plaza office building complex for \$152,800,000 in cash, which resulted in a net gain of \$56,831,000.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Discontinued Operations continued

The following table sets forth the assets (primarily the net book value of real estate) related to discontinued operations.

(Amounts in thousands)	December 31,	
	2008	2007
H Street 8.6 acres of land subject to ground leases (see page 24)	\$ 108,292	\$ 108,470
Retail Properties	2,088	4,030
Americold		1,424,770
Tysons Dulles Plaza		95,048
	\$ 110,380	\$ 1,632,318

The following table sets forth the liabilities (primarily mortgage debt) related to discontinued operations as of December 31, 2008 and 2007.

(Amounts in thousands)	December 31,	
	2008	2007
Americold	\$ 750	\$ 1,332,627
Tysons Dulles Plaza		3
	\$ 750	\$ 1,332,630

The following table sets forth the combined results of discontinued operations for the years ended December 31, 2008, 2007 and 2006.

(Amounts in thousands)	For the Year Ended December 31,		
	2008	2007	2006
Total revenues	\$ 222,361	\$ 865,584	\$ 813,665
Total expenses	238,132	872,176	815,219
Net loss	(15,771)	(6,592)	(1,554)
Net gains on sale of real estate	170,213	64,981	33,769
Income from discontinued operations, net of minority interest	\$ 154,442	\$ 58,389	\$ 32,215

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Derivative Instruments and Related Marketable Securities*Investment in McDonald's Corporation (McDonalds) (NYSE: MCD)*

We owned an economic interest in 14,565,500 McDonald's common shares through a series of privately negotiated transactions with a financial institution pursuant to which we purchased a call option and simultaneously sold a put option at the same strike price on McDonald's common shares. These call and put options had an initial weighted-average strike price of \$32.66 per share, or an aggregate of \$475,692,000 and provided for net cash settlement. Under these agreements, the strike price for each pair of options increased at an annual rate of LIBOR plus 45 basis points and was decreased for dividends received. The options provided us with the same economic gain or loss as if we had purchased the underlying common shares and borrowed the aggregate purchase price at an annual rate of LIBOR plus 45 basis points. Because these options were derivatives and did not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the options at the end of each reporting period were recognized as interest and other investment income, net on our consolidated statements of income. During 2006, we sold 2,119,500 of these shares at a weighted average price of \$35.49 per share, and acquired an additional 1,250,000 option shares at a weighted average price of \$33.08 per share. During 2007, we settled the 13,695,500 remaining option shares and received an aggregate of \$260,719,000 in cash. We recognized net gains of \$108,821,000 and \$138,815,000 in the years ended December 31, 2007 and 2006, respectively, representing income from the mark-to-market of these shares during the period of our ownership through their settlement, net of related LIBOR charges.

In addition to the above, in October 2007, we sold 858,000 McDonald's common shares for aggregate proceeds of \$48,434,000, or \$56.45 per share, and recognized a net gain of \$23,090,000, representing accumulated appreciation during the period of our ownership. The shares were acquired in 2005 at a weighted average price of \$29.54 per share, and were classified as available-for-sale marketable equity securities on our consolidated balance sheet.

The aggregate net gain from inception of our investments in McDonald's in 2005 through final settlement in October 2007 was \$289,414,000.

Investment in Sears, Roebuck and Co. (Sears)

We owned an economic interest in 7,916,900 Sears common shares through a series of privately negotiated transactions with a financial institution pursuant to which we purchased a call option and simultaneously sold a put option at the same strike price on Sears common shares. These call and put options had an initial weighted-average strike price of \$39.82 per share, or an aggregate of \$315,250,000. Under these agreements, the strike price for each pair of options increased at an annual rate of LIBOR plus 45 basis points and was decreased for dividends received. The options provided us with the same economic gain or loss as if we had purchased the underlying common shares and borrowed the aggregate strike price at an annual rate of LIBOR plus 45 basis points. Because these options were derivatives and did not qualify for hedge accounting treatment, the gains or losses resulting from the mark-to-market of the options at the end of each reporting period were recognized as interest and other investment income, net on our consolidated statements of income. On March 30, 2005, as a result of the merger between Sears and Kmart and pursuant to the terms of the contract, our derivative position representing 7,916,900 Sears common shares became a derivative position representing 2,491,819 common shares of Sears Holdings, Inc. (Sears Holdings) (Nasdaq: SHLD) valued at \$323,936,000 based on the then closing share price of \$130.00 and \$146,663,000 of cash. During 2005 we sold 402,660 of the option shares at a weighted average price of \$124.44 per share. During 2006, we settled the remaining 2,089,159 option shares at a weighted average price of \$125.43 per share, resulting in a net gain of \$18,611,000. The aggregate net gain realized from inception of this investment in 2004 through settlement was \$142,877,000.

Investment in Sears Canada, Inc. (Sears Canada)

On April 3, 2006, we tendered the 7,500,000 Sears Canada shares we owned to Sears Holdings at the increased tender price of Cdn. \$18.00 per share (the equivalent at that time of US \$15.68 per share), which resulted in a net gain of \$55,438,000, the difference between the tender price, and our carrying amount of \$8.29 per share. Together with income recognized in the fourth quarter of 2005 that resulted from a Sears Canada special dividend, the aggregate net gain from inception in 2005 on our \$143,737,000 investment was \$78,323,000.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Derivative Instruments and Related Marketable Securities - continued

GMH Communities L.P. Stock Purchase Warrants

We owned warrants to acquire GMH Communities L.P. (GMH) common equity. The warrants entitled us to acquire (i) 6,666,667 GMH limited partnership units at an exercise price of \$7.50 per unit and (ii) 5,496,724 GMH limited partnership units at an exercise price of \$8.22 per unit. The warrants were accounted for as derivative instruments that did not qualify for hedge accounting treatment. Accordingly, the gains or losses resulting from the mark-to-market of the warrants at the end of each reporting period were recognized as interest and other investment income, net on our consolidated statements of income.

On November 3, 2004, we exercised our first tranche of warrants to acquire 6,666,667 limited partnership units at a price of \$7.50 per unit, or an aggregate of \$50,000,000. On May 2, 2006, the date our remaining GMH warrants were to expire, we received 1,817,247 GMH Communities Trust (NYSE: GCT) (GCT) common shares through an automatic cashless exercise, which resulted in the recognition of a net loss of \$16,370,000, the difference between the value of the GCT common shares received on May 2, 2006 and GCT's closing share price of \$15.51 on December 31, 2005.

6. Investments in Partially Owned Entities

Toys R Us (Toys)

As of December 31, 2008, we own 32.7% of Toys. The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income accounts for more than 80% of its fiscal year net income. Because Toys' fiscal year ends on the Saturday nearest January 31, we record our 32.7% share of Toys' net income or loss on a one-quarter lag basis.

In July 2008, in connection with an audit of Toys' purchase accounting basis financial statements for its fiscal years 2006 and 2007, it was determined that the purchase accounting basis income tax expense was understated. Our share of this non-cash charge was \$14,900,000, which we recognized as part of our equity in Toys' net loss in the second quarter of 2008. This non-cash charge had no effect on cash actually paid for income taxes or Toys' previously issued Recap basis consolidated financial statements.

In 2006, Toys closed 87 Toys R Us stores in the United States as a result of its store-closing program. Toys incurred restructuring and other charges aggregating approximately \$127,000,000 before tax, which includes \$44,000,000 for the cost of liquidating the inventory. Our share of the \$127,000,000 charge was \$42,000,000, of which \$27,300,000 had no income statement effect as a result of purchase accounting and the remaining portion relating to the cost of liquidating inventory of approximately \$9,100,000 after-tax, was recognized as an expense as part of our equity in Toys' net income in 2006.

Below is a summary of Toys' latest available financial information presented on a purchase accounting basis:

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(Amounts in millions)

	As of November 1, 2008	As of November 3, 2007
Balance Sheet:		
Total Assets	\$ 12,410	\$ 12,636
Total Liabilities	11,481	11,645
Total Equity	929	991

	For the Twelve Months Ended		
	November 1, 2008	November 3, 2007	October 28, 2006
Income Statement:			
Total Revenue	\$ 14,090	\$ 13,646	\$ 12,205
Net Loss	(13	) (65	) (143

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Investments in Partially Owned Entities - continued

Alexander s, Inc. (NYSE: ALX) (Alexander s)

We owned 32.5% and 32.8% of the outstanding common shares of Alexander s at December 31, 2008 and 2007, respectively. We manage, lease and develop Alexander s properties pursuant to the agreements described below which expire in March of each year and are automatically renewable. At December 31, 2008 the fair value of our investment in Alexander s, based on Alexander s December 31, 2008 closing share price of \$254.90, was \$421,622,000.

Management and Development Agreements

We receive an annual fee for managing Alexander s and all of its properties equal to the sum of (i) \$3,000,000, (ii) 3% of the gross income from the Kings Plaza Regional Shopping Center, (iii) \$0.50 per square foot of the tenant-occupied office and retail space at 731 Lexington Avenue and (iv) \$234,000, escalating at 3% per annum, for managing the common area of 731 Lexington Avenue.

In addition, we are entitled to a development fee of 6% of development costs, as defined, with minimum guaranteed payments of \$750,000 per annum. During the years ended December 31, 2008, 2007 and 2006, we recognized \$4,101,000, \$4,482,000 and \$725,000, respectively, of development fee income.

Leasing Agreements

We provide Alexander s with leasing services for a fee of 3% of rent for the first ten years of a lease term, 2% of rent for the eleventh through twentieth year of a lease term and 1% of rent for the twenty-first through thirtieth year of a lease term, subject to the payment of rents by Alexander s tenants. In the event third-party real estate brokers are used, our fee increases by 1% and we are responsible for the fees to the third-parties. We are also entitled to a commission upon the sale of any of Alexander s assets equal to 3% of gross proceeds, as defined, for asset sales less than \$50,000,000, or 1% of gross proceeds, as defined, for asset sales of \$50,000,000 or more. The total of these amounts is payable to us in annual installments in an amount not to exceed \$4,000,000 with interest on the unpaid balance at one-year LIBOR plus 1.0% (5.19% at December 31, 2008).

Other Agreements

Building Maintenance Services (BMS), our wholly-owned subsidiary, supervises the cleaning, engineering and security services at Alexander s 731 Lexington Avenue and Kings Plaza properties for an annual fee of the costs for such services plus 6%. During the years ended December 31, 2008, 2007 and 2006, we recognized \$2,083,000, \$3,016,000 and \$2,828,000, respectively, of income under these agreements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Investments in Partially Owned Entities - continued

Lexington Realty Trust (Lexington) (NYSE: LXP)

On December 31, 2006, Newkirk Realty Trust (NYSE: NKT) was acquired in a merger by Lexington, a real estate investment trust that invests in, owns and manages commercial properties net leased to major corporations throughout the United States. We owned 10,186,991 Newkirk Master Limited Partnership (Newkirk MLP) units (representing a 15.8% ownership interest), which was also acquired by Lexington as a subsidiary and was renamed Lexington Master Limited Partnership (Lexington MLP). The units in Newkirk MLP, which we accounted for on the equity method, were converted on a 0.80 for 1 basis into limited partnership units of Lexington MLP, which we also account for on the equity method. In addition, upon the merger, Newkirk terminated its advisory agreement with NKT Advisors, in which we had a 20.0% interest, for an aggregate payment of \$12,500,000, of which our share was \$2,300,000. On December 31, 2006, we recognized a net gain of \$10,362,000, as a result of the merger transactions, which is included on a component of (loss) income from partially owned entities on our consolidated statement of income.

In connection with the above transactions, we owned 8,149,592 limited partnership units of Lexington MLP which were exchangeable on a one-for-one basis into Lexington common shares, or a 7.7% limited partnership interest. On October 28, 2008, we acquired 8,000,000 Lexington common shares for \$5.60 per share, or \$44,800,000. The purchase price consisted of \$22,400,000 in cash and a \$22,400,000 margin loan recourse only to the 8,000,000 shares acquired. In addition, we exchanged our existing limited partnership units in Lexington MLP for 8,149,592 Lexington common shares. As of December 31, 2008, we own 16,149,592 Lexington common shares, or approximately 17.2% of Lexington's common equity. We account for our investment in Lexington on the equity method and record our pro rata share of Lexington's net income or loss on a one-quarter lag basis because we file our consolidated financial statements on Form 10-K and 10-Q prior to the time that Lexington files its financial statements.

Based on Lexington's December 31, 2008 closing share price of \$5.00, the market value (fair value pursuant to SFAS 157) of our investment in Lexington was \$80,748,000, or \$100,707,000 below the carrying amount on our consolidated balance sheet. We have concluded that our investment in Lexington is other-than-temporarily impaired and recorded a \$100,707,000 non-cash impairment loss in the fourth quarter of 2008. Together with impairment changes recorded in the nine months ended September 30, 2008, we recognized an aggregate of \$107,882,000 of non-cash charges on our investment in Lexington. Our conclusions were based on the recent deterioration in the capital and financial markets and our inability to forecast a recovery in the near-term. These charges are included as a component of (loss) income from partially owned entities, on our consolidated statement of income.

GMH

In June 2008, pursuant to the sale of GMH's military housing division and the merger of its student housing division with American Campus Communities, Inc. (ACC) (NYSE: ACC), we received an aggregate of \$105,180,000, consisting of \$82,142,000 in cash and 753,126 shares of ACC common stock valued at \$23,038,000 based on ACC's then closing share price of \$30.59, in exchange for our entire interest in GMH. We subsequently sold all of the ACC common shares. The above transactions resulted in a net gain of \$2,038,000 which is included as a component of net gains on disposition of wholly owned and partially owned assets other than depreciable real estate in our consolidated statement of income. The aggregate net income realized from inception of this investment in 2004 through its disposition was \$77,000,000.

Real Estate Joint Ventures Development Costs

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During 2008, we recognized non-cash charges aggregating \$96,037,000, for the write-off of our share of certain partially owned entities development costs, as these projects were either deferred or abandoned. These charges include \$37,000,000 in the fourth quarter of 2008, for our 50% share of costs in connection with the redevelopment of the Filene's property in Boston, Massachusetts and \$23,000,000 in the first quarter of 2008, for our 50% share of costs in connection with the abandonment of the arena move /Moynihan East portions of the Farley project. Such charges are included as a component of (loss) income from partially owned entities, on our consolidated statement of income.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Investments in Partially Owned Entities continued

Investments in partially owned entities as of December 31, 2008 and 2007 and income recognized from such investments for the years ended December 31, 2008, 2007 and 2006 are as follows:

Investments:

(Amounts in thousands)	Percentage Ownership as of December 31, 2008	As of December 31,	
		2008	2007
Toys	32.7%	\$ 293,096	\$ 298,089
Partially owned office buildings (1)	(1)	\$ 157,468	\$ 161,411
Lexington (see page 31)	17.2%	80,748	160,868
India real estate ventures	4%-50%	88,858	123,997
Alexander s	32.5%	137,305	122,797
GMH (sold in June 2008)			103,260
Beverly Connection (2)	50%		91,302
Other equity method investments (3)	(3)	325,775	443,107
		\$ 790,154	\$ 1,206,742

(1) Includes interests in 330 Madison Avenue (25%), 825 Seventh Avenue (50%), Fairfax Square (20%), Kaempfer equity interests in three office buildings (2.5% to 5.0%), Rosslyn Plaza (46%) and West 57th Street properties (50%).

(2) As of November 13, 2008, our joint venture partner s failure to contribute its pro rata share of required capital resulted in our ability under the joint venture agreement to assert unilateral control over major business decisions and accordingly, we began to consolidate our investment pursuant to Accounting Research Bulletin (ARB) 50 *Consolidated Financial Statements*.

(3) Includes interests in Monmouth Mall and redevelopment ventures including Boston Filene s, Harlem Park and Farley Project.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Investments in Partially Owned Entities continued

Our Share of Net Income (Loss): (Amounts in thousands)	For the Years Ended December 31,		
	2008	2007	2006
Toys:			
32.7% share in 2008 and 2007 and 32.9% in 2006:			
Equity in net loss	\$ (5,785	) \$ (20,957	) \$ (56,218
Interest and other income	8,165	6,620	8,698
	\$ 2,380	\$ (14,337	) \$ (47,520
Alexander s:			
32.5% share in 2008, 32.8% in 2007 and 2006 of:			
Equity in net income before reversal (accrual) of stock appreciation rights compensation expense and net gain on sale of condominiums	\$ 17,484	\$ 22,624	\$ 19,120
Reversal (accrual) of stock appreciation rights compensation expense	6,583	14,280	(49,043
Net gain on sale of condominiums		420	4,580
Equity in net income (loss)	24,067	37,324	(25,343
Management and leasing fees	8,503	8,783	10,088
Development fees	4,101	4,482	725
	\$ 36,671	\$ 50,589	\$ (14,530
Lexington (see page 31)	\$ (105,630) ⁽¹⁾ \$ 2,211	\$ 34,459
Beverly Connection ⁽³⁾ :			
50% share of equity in net loss	(8,706) ⁽⁴⁾ (7,031	) (8,567
Interest and other income	14,450	12,141	10,837
	5,744	5,110	2,270
India Real Estate Ventures:			
4% to 50% share of equity in net losses	(3,336)	
GMH:			
13.8% share in 2007 and 13.5% in 2006:			
Equity in net income (loss)		6,463	(1,013
H Street non-consolidated entities:			
50% share of equity in net income		5,923) ⁽⁵⁾ 11,074
Other ⁽⁷⁾	(92,656) ⁽⁸⁾ 12,184	13,565
	\$ (195,878	) \$ 31,891	\$ 60,355

See notes on following page.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Investments in Partially Owned Entities continued

Notes to preceding tabular information (in thousands):

- (1) Includes \$107,882 for non-cash impairment charges.
- (2) Includes (i) a \$10,362 net gain recognized as a result of the acquisition of Newkirk by Lexington and (ii) \$10,842 for our share of Newkirk MLP's net gains on sale of real estate.
- (3) As of November 13, 2008, our joint venture partner's failure to contribute its pro rata share of required capital resulted in our ability under the joint venture agreement to assert unilateral control over major business decisions and accordingly, we began to consolidate our investment pursuant to ARB 51.
- (4) Includes \$4,100 for the reversal of a non-cash charge recorded by the joint venture in prior periods which, pursuant to paragraph 19(n) of Accounting Principles Board Opinion 18, *The Equity Method of Accounting For Investments In Common Stock*, should have been eliminated in the determination of our share of the earnings of the venture. In addition, in accordance with EITF 99-10, during the quarter ended September 30, 2008 our partner's capital account was reduced to zero and, accordingly, we recognized \$1,528 of additional net loss for the portion that related to our partner's pro rata share of the venture's net loss.
- (5) Represents our 50% share of equity in net income from January 1, 2007 through April 29, 2007. On April 30, 2007, we acquired the remaining 50% interest of these entities and began to consolidate the accounts into our consolidated financial statements and no longer account for this investment under the equity method.
- (6) Prior to the quarter ended June 30, 2006, two 50% owned entities that were contesting our acquisition of H Street impeded our access to their financial information and accordingly, we were unable to record our pro rata share of their earnings. 2006 includes \$3,890 for our 50% share of their earnings for the period from July 20, 2005 (date of acquisition) to December 31, 2005.
- (7) Includes our equity in net earnings of partially owned entities, including partially owned office buildings in New York and Washington, DC, the Monmouth Mall, Dune Capital LP, Verde Group LLC and other equity method investments.
- (8) Includes \$96,037 for non-cash charges for the write-off of our share of certain partially owned entities' development costs.

Condensed Combined Financial Information of Partially Owned Entities

The following is a summary of combined financial information for all of our partially owned entities, including Toys, Alexander's, and Lexington, as of December 31, 2008 and 2007 and for the years ended December 31, 2008, 2007 and 2006.

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(Amounts in millions)	December 31,	
Balance Sheet:	2008	2007
Total Assets	\$ 23,705	\$ 24,832
Total Liabilities	19,526	20,611
Total Equity	4,179	4,221

Income Statement:	For the Years Ended December 31,		
	2008	2007	2006
Total Revenue	\$ 15,313	\$ 14,821	\$ 13,036
Net Loss	(43	) (144	) (19

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Investments in Partially Owned Entities - continued

Below is a summary of the debt of partially owned entities as of December 31, 2008 and 2007, none of which is recourse to us.

	100% of Partially Owned Entities Debt at	
	December 31, 2008	December 31, 2007
(Amounts in thousands)		
Toys (32.7% interest) (as of November 1, 2008 and November 3, 2007, respectively):		
\$1.3 billion senior credit facility, due 2010, (6.14% at December 31, 2008)	\$ 1,300,000	\$ 1,300,000
\$2.0 billion credit facility, due 2010, LIBOR plus 1.00% - 3.75% (3.57% at December 31, 2008) (\$110,000 reserved for outstanding letters of credit)	367,000	489,000
Mortgage loan, due 2010, LIBOR plus 1.30% (2.50% at December 31, 2008)	800,000	800,000
\$804 million secured term loan facility, due 2012, LIBOR plus 4.25% (4.83% at December 31, 2008)	797,000	797,000
Senior U.K. real estate facility, due 2013, with interest at 5.02%	568,000	741,000
7.625% bonds, due 2011 (Face value \$500,000)	486,000	481,000
7.875% senior notes, due 2013 (Face value \$400,000)	377,000	373,000
7.375% senior notes, due 2018 (Face value \$400,000)	335,000	331,000
Japan borrowings, due 2009-2011 (weighted average rate of 1.29% at December 31, 2008)	289,000	243,000
4.51% Spanish real estate facility, due 2013	167,000	193,000
\$181 million unsecured term loan facility, due 2013, LIBOR plus 5.00%		
(5.96% at December 31, 2008)	180,000	180,000
Japan bank loans, due 2011-2014, 1.20%-2.80%	158,000	161,000
6.84% Junior U.K. real estate facility, due 2013	101,000	132,000
4.51% French real estate facility, due 2013	81,000	93,000
8.750% debentures, due 2021 (Face value \$22,000)	21,000	21,000
Multi-currency revolving credit facility, due 2010, LIBOR plus 1.50%-2.00%		28,000
Other	73,000	60,000
	6,100,000	6,423,000
Alexander s (32.5% interest):		
731 Lexington Avenue mortgage note payable collateralized by the office space, due in March 2014, with interest at 5.33% (prepayable without penalty after December 2013)	373,637	383,670
731 Lexington Avenue mortgage note payable, collateralized by the retail space, due in July 2015, with interest at 4.93% (prepayable without penalty after March 2015)	320,000	320,000
Kings Plaza Regional Shopping Center mortgage note payable, due in June 2011, with interest at 7.46% (prepayable without penalty after March 2011)	199,537	203,456
Rego Park construction loan payable, due in December 2010, with a one-year extension, LIBOR plus 1.20% (3.08% at December 31, 2008)	181,695	55,786
Rego Park mortgage note payable, due in June 2009, with interest at 7.25% (prepayable without penalty after March 2009)	78,386	79,285
Paramus mortgage note payable, due in October 2011, with interest at 5.92% (prepayable without penalty)	68,000	68,000
	1,221,255	1,110,197
Lexington (7.7% interest) (as of September 30, 2008 and September 30, 2007, respectively):		
Mortgage loans collateralized by the partnership s real estate, due from 2008 to 2037, with a weighted average interest rate of 5.65% at September 30, 2008 (various prepayment terms)	2,486,370	3,320,261
GMH 13.8% interest in mortgage notes payable		995,818

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Investments in Partially Owned Entities continued

(Amounts in thousands)	100% of Partially Owned Entities Debt at December	
	31, 2008	December 31, 2007
Partially owned office buildings:		
Kaempfer Properties (2.5% and 5.0% interests in two partnerships) mortgage notes payable, collateralized by the partnerships real estate, due from 2011 to 2031, with a weighted average interest rate of 5.69% at December 31, 2008 (various prepayment terms)	\$ 143,000	\$ 144,340
100 Van Ness, San Francisco office complex (9% interest) up to \$132 million construction loan payable, due in July 2013, LIBOR plus 2.75% with an interest rate floor of 6.50% and interest rate cap of 7.00%	85,249	
330 Madison Avenue (25% interest) up to \$150,000 mortgage note payable, due in June 2015, LIBOR plus 1.50% with interest at 3.38%	70,000	60,000
Fairfax Square (20% interest) mortgage note payable, due in August 2009, with interest at 7.50%	62,815	64,035
Rosslyn Plaza (46% interest) mortgage note payable, due in December 2011, LIBOR plus 1.0% (1.43% at December 31, 2008)	56,680	56,680
West 57 th Street (50% interest) mortgage note payable, due in October 2009, with interest at 4.94% (prepayable without penalty after July 2009)	29,000	29,000
825 Seventh Avenue (50% interest) mortgage note payable, due in October 2014, with interest at 8.07% (prepayable without penalty after April 2014)	21,426	21,808
India Real Estate Ventures:		
TCG Urban Infrastructure Holdings (25% interest) mortgage notes payable, collateralized by the entity's real estate, due from 2009 to 2022, with a weighted average interest rate of 13.38% at December 31, 2008 (various prepayment terms)	148,792	136,431
India Property Fund L.P. (36.5% interest) \$120 million secured revolving credit facility, due in December 2009, LIBOR plus 2.75% (4.60% at December 31, 2008)	90,500	
Waterfront associates, LLC (2.5% interest) construction and land loan up to \$250 million payable, due in September 2011 with a six month extension option, LIBOR plus 2.00%-3.00% (3.19% at December 31, 2008)	57,600	
Verde Realty Master Limited Partnership (8.5% interest) mortgage notes payable, collateralized by the partnerships real estate, due from 2009 to 2037, with a weighted average interest rate of 6.03% at December 31, 2008 (various prepayment terms)	559,840	487,122
Green Courte Real Estate Partners, LLC (8.3% interest) mortgage notes payable, collateralized by the partnerships real estate, due from 2009 to 2015, with a weighted average interest rate of 4.96% at December 31, 2008 (various prepayment terms)	307,098	225,704
Monmouth Mall (50% interest) mortgage note payable, due in September 2015, with interest at 5.44% (prepayable without penalty after July 2015)	165,000	165,000
San Jose, California Ground-up Development (45% interest) construction loan, due in March 2009, with a one-year extension option; \$114 million fixed at 4.62%, balance at LIBOR plus 1.75% (4.49% at December 31, 2008)	132,128	101,045
Wells/Kinzie Garage (50% interest) mortgage note payable, due in December 2013, with interest at 6.87%	14,800	14,422
Orleans Hubbard Garage (50% interest) mortgage note payable, due in December 2013, with interest at 6.87%	10,200	9,045
Other	468,559	452,320

Based on our ownership interest in the partially owned entities above, our pro rata share of the debt of these partially owned entities was

\$3,196,585,000 and \$3,289,873,000 as of December 31, 2008 and 2007, respectively.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Mezzanine Loans Receivable

The following is a summary of our investments in mezzanine loans as of December 31, 2008 and 2007.

(Amounts in thousands)	Maturity	Interest Rate		Carrying Amount as of	
		as of December 31, 2008		December 31, 2008	December 31, 2007
Mezzanine Loans Receivable:					
Equinox (1)	02/13	14.00%		\$ 85,796	\$ 73,162
Tharaldson Lodging Companies (2)	04/11	4.68%		76,341	76,219
Riley HoldCo Corp. (3)	02/15	10.00%		74,381	74,268
280 Park Avenue (4)	06/16	10.25%		73,750	73,750
MPH, net of valuation allowance of \$46,700 and \$57,000, respectively (5)				19,300	9,000
Other	04/09-07/17	4.75	12.0%	142,971	185,940
				\$ 472,539	\$ 492,339

- (1) On February 10, 2006, we acquired a 50% interest in a \$115,000 note issued by Related Equinox Holdings II, LLC (the Note), for \$57,500 in cash. The Note is secured by a pledge of the stock of Related Equinox Holdings II. Related Equinox Holdings II owns Equinox Holdings Inc., which in turn owns all of the assets and obligations, including the fitness clubs, operated under the Equinox brand. The Note is junior to a \$50,000 revolving loan and \$280,000 of senior unsecured obligations. The Note is senior to \$125,000 of equity contributed by third parties for their acquisition of the Equinox fitness club business. The Note matures on February 15, 2013 and bears paid-in-kind interest at 14% through February 15, 2011, increasing by 3% per annum through maturity. The Note is prepayable at any time after February 15, 2009.
- (2) On June 16, 2006, we acquired an 81.5% interest in a \$95,968 mezzanine loan to Tharaldson Lodging Companies for \$78,166 in cash. The loan is secured by a 107 hotel property portfolio with brands including Fairfield Inn, Residence Inn, Comfort Inn and Courtyard by Marriott. The loan is subordinate to \$671,778 of debt and is senior to approximately \$192,000 of other debt and equity. The loan matures in April 2009, with two one-year extensions, provides for a 0.75% placement fee and bears interest at LIBOR plus 4.25% (4.68% at December 31, 2008).
- (3) In 2005, we made a \$135,000 loan to Riley HoldCo Corp., consisting of a \$60,000 mezzanine loan and a \$75,000 fixed rate unsecured loan. During 2006, we were repaid the \$60,000 balance of the mezzanine loan with a pre-payment premium of \$972, which was recognized as interest and other investment income for the year ended December 31, 2006.
- (4) On June 30, 2006, we made a \$73,750 mezzanine loan secured by the equity interests in 280 Park Avenue, a 1.2 million square foot office building, located between 48th and 49th Streets in Manhattan. The loan bears interest at 10.25% and matures in June 2016. The loan is subordinate to \$1.036 billion of other debt and is senior to approximately \$260,000 of equity and interest reserves.
- (5) On June 5, 2007, we acquired a 42% interest in two MPH mezzanine loans totaling \$158,700 for \$66,000 in cash. The loans, which were due on February 8, 2008 and have not been repaid, are subordinate to \$2.9 billion of mortgage and other debt and secured by the equity interests in four New York City properties: Worldwide Plaza, 1540 Broadway office condominium, 527 Madison Avenue and Tower 56. At December 31, 2007, we reduced the net carrying amount of the loans to \$9,000 by recognizing a \$57,000 non-cash charge in our consolidated statement of income. On April 2, 2008, we sold a sub-participation interest in the loans for \$19,300 which

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resulted in the reduction of our valuation allowance from \$57,000 to \$46,700 and the recognition of \$10,300 of non-cash income in our consolidated statement of income.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Identified Intangible Assets

The following summarizes our identified intangible assets (primarily acquired above-market leases) and intangible liabilities (primarily acquired below-market leases) as of December 31, 2008 and December 31, 2007.

(Amounts in thousands)	December 31, 2008	December 31, 2007
Identified intangible assets (included in other assets):		
Gross amount	\$ 784,192	\$ 726,204
Accumulated amortization	(258,242)	(162,845)
Net	\$ 525,950	\$ 563,359
Identified intangible liabilities (included in deferred credit):		
Gross amount	\$ 998,179	\$ 977,455
Accumulated amortization	(278,357)	(163,357)
Net	\$ 719,822	\$ 814,098

Amortization of acquired below-market leases, net of acquired above-market leases resulted in an increase to rental income of \$96,176,000, \$83,292,000 and \$23,490,000 for the years ended December 31, 2008, 2007 and 2006, respectively. The estimated annual amortization of acquired below-market leases net of acquired above-market leases for each of the five succeeding years is as follows:

(Amounts in thousands)	
2009	\$ 69,110
2010	62,152
2011	59,187
2012	55,470
2013	47,504

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$86,498,000, \$45,764,000 and \$21,156,000 for the years ended December 31, 2008, 2007 and 2006, respectively. The estimated annual amortization of all other identified intangible assets, including acquired in-place leases, customer relationships, and third party contracts for each of the five succeeding years is as follows:

(Amounts in thousands)	
2009	\$ 58,973
2010	56,286
2011	53,879
2012	49,296
2013	42,068

We are a tenant under ground leases for certain properties. Amortization of these acquired below-market leases resulted in an increase to rent expense of \$2,654,000, \$1,565,000 and \$320,000 for the years ended December 31, 2008, 2007 and 2006, respectively. The estimated annual

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amortization of these below market leases for each of the five succeeding years is as follows:

(Amounts in thousands)	
2009	\$2,133
2010	2,133
2011	2,133
2012	2,133
2013	2,133

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Debt

The following is a summary of our debt:

(Amounts in thousands)	Maturity	Interest Rate at	Balance at	December 31,
Notes and Mortgages Payable:	(1)	December 31,	December 31,	December 31,
Fixed Interest:		2008	2008	2007
New York Office:				
1290 Avenue of the Americas	01/13	5.97%	\$ 444,667	\$ 454,166
350 Park Avenue	01/12	5.48%	430,000	430,000
770 Broadway	03/16	5.65%	353,000	353,000
888 Seventh Avenue	01/16	5.71%	318,554	318,554
Two Penn Plaza	02/11	4.97%	287,386	292,000
909 Third Avenue	04/15	5.64%	214,074	217,266
Eleven Penn Plaza	12/11	5.20%	206,877	210,338
Washington, DC Office:				
Skyline Place	02/17	5.74%	678,000	678,000
Warner Building	05/16	6.26%	292,700	292,700
River House Apartment Complex (2)	04/15	5.43%	195,546	46,339
1215 Clark Street, 200 12 th Street & 251 18 th Street	01/25	7.09%	115,440	117,464
Bowen Building	06/16	6.14%	115,022	115,022
Reston Executive I, II and III	01/13	5.57%	93,000	93,000
1101 17 th , 1140 Connecticut, 1730 M and 1150 17 th Street	08/10	6.74%	87,721	89,514
1550, 1750 Crystal Drive	11/14	7.08%	83,912	86,026
Universal Buildings	04/14	4.88%	59,728	62,613
2345 Crystal Drive	09/08	6.66%	58,656	58,656
1235 Clark Street	07/12	6.75%	54,128	54,936
2231 Crystal Drive	08/13	7.08%	50,394	52,293
241 18 th Street	10/10	6.82%	46,532	47,445
1750 Pennsylvania Avenue	06/12	7.26%	46,570	47,204
2011 Crystal Drive	10/09	6.88%	38,338	39,135
1225 Clark Street	08/13	7.08%	30,145	31,279
1800, 1851, 1901 South Bell Street	12/11	6.91%	27,801	35,558
Retail:				
Cross collateralized mortgages on 42 shopping centers	03/10	7.93%	448,115	455,907
Springfield Mall (including present value of purchase option)	10/12-04/13	5.45%	252,803	256,796
Green Acres Mall (3)	(3)	(3)		137,331
Montehiedra Town Center	07/16	6.04%	120,000	120,000
Broadway Mall	07/13	5.40%	94,879	97,050
828-850 Madison Avenue Condominium	06/18	5.29%	80,000	80,000
Las Catalinas Mall	11/13	6.97%	60,766	62,130
Other	05/09-11/34	4.00%-7.33%	159,597	165,299
Merchandise Mart:				
Merchandise Mart	12/16	5.57%	550,000	550,000
High Point Complex	08/16	6.34%	220,361	221,258
Boston Design Center	09/15	5.02%	70,740	71,750
Washington Design Center	11/11	6.95%	44,992	45,679
Other:				
555 California Street	05/10-09/11	5.97%	720,671	719,568
Industrial Warehouses	10/11	6.95%	25,268	25,656
Total Fixed Interest Notes and Mortgages Payable		5.96%	7,117,727	7,230,932

See notes on page 41.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Debt - continued

(Amounts in thousands)

	Maturity (1)	Spread over LIBOR	Interest Rate at December 31, 2008	Balance at December 31, 2008	December 31, 2007
Notes and Mortgages Payable:					
Variable Interest:					
New York Office:					
Manhattan Mall	02/12	L+55	1.75%	\$ 232,000	\$ 232,000
866 UN Plaza	05/11	L+40	1.84%	44,978	44,978
Washington, DC Office:					
2101 L Street (4)	02/13	L+120	1.68%	150,000	
Courthouse Plaza One and Two	01/15	L+75	2.58%	70,774	74,200
River House Apartments (2)	04/18	(2)	1.78%	64,000	
Commerce Executive III, IV and V	07/09	L+55	1.98%	50,223	50,223
1999 K Street (5)	12/10	L+130	2.73%	73,747	
220 20 th Street (6)	01/11	L+115	2.03%	40,701	
West End 25 (7)	02/11	L+130	3.19%	24,620	
Retail:					
Green Acres Mall (3)	02/13	L+140	3.28%	335,000	
Bergen Town Center (8)	03/13	L+150	3.41%	228,731	
Beverly Connection (9)	07/09	L+245	3.70%	100,000	
Other:					
220 Central Park South	11/10	L+235 L+245	3.82%	130,000	128,998
India Property Fund L.P. (10)	(10)	(10)			82,500
Other	07/09	11/11 Various	3.79%	172,886	94,626
Total Variable Interest Notes and Mortgages Payable			2.85%	1,717,660	707,525
Total Notes and Mortgages Payable			5.36%	\$ 8,835,387	\$ 7,938,457
Convertible Senior Debentures:					
Due 2027 (11)	04/12		2.85%	\$ 1,364,805	\$ 1,376,278
Due 2026 (12)	11/11		3.63%	978,109	984,134
Total Convertible Senior Debentures			3.18%	\$ 2,342,914	\$ 2,360,412
Senior Unsecured Notes:					
Senior unsecured notes due 2009 (13)	08/09		4.50%	\$ 168,289	\$ 249,365
Senior unsecured notes due 2010	12/10		4.75%	199,625	199,436
Senior unsecured notes due 2011	02/11		5.60%	249,902	249,855
Total Senior Unsecured Notes			5.03%	\$ 617,816	\$ 698,656
Exchangeable Senior Debentures due 2025	04/12		3.88%	\$ 494,501	\$ 492,857
Unsecured Revolving Credit Facilities:					
\$1.595 billion unsecured revolving credit facility	09/12	L+55 ⁽¹⁵⁾	1.97%	\$ 300,000	\$ 300,000
\$.965 billion unsecured revolving credit facility (14) (\$44,565 reserved for outstanding letters of credit)	06/11	L+55 ⁽¹⁵⁾	2.18%	58,468	105,656
Total Unsecured Revolving Credit Facilities			2.00%	\$ 358,468	\$ 405,656

See notes on the following page.



VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Debt - continued

Notes to preceding tabular information:

(Amounts in thousands)

- (1) Represents the extended maturity for certain loans in which we have the unilateral right, ability and intent to extend. In the case of our convertible and exchangeable debt, represents the earliest date holders may require us to repurchase the debentures.
- (2) On March 12, 2008, we completed a \$260,000 refinancing of the River House Apartment Complex. The financing is comprised of a \$196,000 interest-only seven-year 5.43% fixed rate mortgage and a \$64,000 interest-only ten-year floating rate mortgage at the Freddie Mac Reference Note Rate plus 1.53% (1.78% at December 31, 2008). We retained net proceeds of \$205,000 after repaying the existing loan.
- (3) On February 11, 2008, we completed a \$335,000 refinancing of the Green Acres regional mall. This interest-only loan has a rate of LIBOR plus 1.40% (3.28% at December 31, 2008) and matures in February 2011, with two one-year extension options. We retained net proceeds of \$193,000 after repaying the existing loan.
- (4) On February 26, 2008, we completed a \$150,000 financing of 2101 L Street. The loan bears interest at LIBOR plus 1.20% (1.68% at December 31, 2008) and matures in February 2011 with two one-year extension options. We retained net proceeds of \$148,000.
- (5) On March 27, 2008, we closed a construction loan providing up to \$124,000 to finance the redevelopment of 1999 K Street. The interest-only loan has a rate of LIBOR plus 1.30% (2.73% at December 31, 2008) and matures in December 2010 with two six-month extension options.
- (6) On January 18, 2008, we closed a construction loan providing up to \$87,000 to finance the residential redevelopment project at 220 20th Street (formally Crystal Plaza Two). The construction loan bears interest at LIBOR plus 1.15% (2.03% at December 31, 2008) and matures in January 2011 with two six-month extension options.
- (7) On February 20, 2008, we closed a construction loan providing up to \$104,000 to finance the residential redevelopment project at 1229-1231 25th Street NW (West End 25). The construction loan bears interest at LIBOR plus 1.30% (3.19% at December 31, 2008) and matures in February 2011 with two six-month extension options.
- (8) On March 24, 2008, we closed a construction loan providing up to \$290,000 to finance the redevelopment of a portion of the Bergen Town Center. The interest-only loan has a rate of LIBOR plus 1.50% (3.41% at December 31, 2008) and matures in March 2011 with two one-year extension options.
- (9) Beginning in November 2008, we consolidate our investment in Beverly Connection and no longer account for it under the equity method.

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- (10) Beginning in the first quarter of 2008, we account for our investment in the India Property Fund on the equity method and no longer consolidate its accounts into our consolidated financial statements, based on the reduction in our ownership interest from 50.6% as of December 31, 2007 to 36.5%.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Debt - continued

Notes to preceding tabular information:

(Amounts in thousands)

- (11) On March 21, 2007, Vornado Realty Trust sold \$1.4 billion aggregate principal amount of 2.85% convertible senior debentures due 2027, pursuant to an effective registration statement. The aggregate net proceeds from this offering, after underwriters' discounts and expenses, were approximately \$1.37 billion. The debentures are redeemable at our option beginning in 2012 for the principal amount plus accrued and unpaid interest. Holders of the debentures have the right to require us to repurchase their debentures in 2012, 2017, and 2022 and in certain other limited circumstances. The debentures are convertible, under certain circumstances, for cash and Vornado common shares at an initial conversion rate of 6.1553 common shares per one-thousand dollars of principal amount of debentures. The initial conversion price of \$162.46 represented a premium of 30% over the March 21, 2007 closing price for our common shares. The principal amount of debentures will be settled for cash and the amount in excess of the principal defined as the conversion value will be settled in cash or, at our election, Vornado common shares. The net proceeds of the offering were contributed to the Operating Partnership in the form of an inter-company loan and the Operating Partnership fully and unconditionally guaranteed the payment of the debentures. There are no restrictions which limit the Operating Partnership from making distributions to Vornado and Vornado has no independent assets or operations outside of the Operating Partnership.

We are amortizing the underwriters' discount on a straight-line basis (which approximates the effective interest method) over the period from the date of issuance to the date of earliest redemption of April 1, 2012. Because the conversion option associated with the debentures, when analyzed as a freestanding instrument, meets the criteria to be classified as equity specified by paragraphs 12 to 32 of EITF 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's own Common Stock*, separate accounting for the conversion option under SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* is not appropriate.

In November 2008, we purchased \$17,300 (aggregate face amounts) of our convertible senior debentures due 2027 for \$11,094 in cash.

- (12) On November 20, 2006, we sold \$1,000,000 aggregate principal amount of 3.625% convertible senior debentures due 2026, pursuant to an effective registration statement. The aggregate net proceeds from this offering, after underwriters' discounts and expenses, were approximately \$980,000. The debentures are convertible, under certain circumstances, for Vornado common shares at a current conversion rate of 6.5168 common shares per \$1 of principal amount of debentures. The initial conversion price of \$153.45 represented a premium of 30% over the November 14, 2006 closing price for our common shares. The debentures are redeemable at our option beginning in 2011 for the principal amount plus accrued and unpaid interest. Holders of the debentures have the right to require us to repurchase their debentures in 2011, 2016, and 2021 and in the event of a change in control. The net proceeds of the offering were contributed to the Operating Partnership in the form of an inter-company loan and the Operating Partnership fully and unconditionally guaranteed the payment of the debentures. There are no restrictions which limit the Operating Partnership from making distributions to Vornado and Vornado has no independent assets or operations outside of the Operating Partnership.

We are amortizing the underwriters' discount on a straight-line basis (which approximates the effective interest method) over the period from the date of issuance to the date of earliest redemption of December 1, 2011. Because the conversion option associated with the debentures, when analyzed as a freestanding instrument, meets the criteria to be classified as equity specified by paragraphs 12 to 32 of EITF 00-19 *Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's own Common Stock*, separate accounting for the conversion option under SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities* is not appropriate.

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In November 2008, we purchased \$10,200 (aggregate face amounts) of our convertible senior debentures due 2026 for \$6,987 in cash.

- (13) During 2008, we purchased \$81,540 (aggregate face amounts) of our senior unsecured notes due August 15, 2009 for \$80,408.
- (14) Lehman Brothers is part of the syndicate of banks under this unsecured revolving credit facility with a total commitment of \$35 million. On September 15, 2008, Lehman Brothers filed for Chapter 11 bankruptcy protection. All of the banks in the syndicate, except for Lehman Brothers, have funded their pro rata share of a draw we made subsequent to Lehman's bankruptcy filing.
- (15) Requires the payment of an annual facility fee of 15 basis points.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Debt - continued

Our revolving credit facility and senior unsecured notes contain financial covenants which require us to maintain minimum interest coverage ratios and limit our debt to market capitalization ratios. We believe that we have complied with all of our financial covenants as of December 31, 2008.

On May 9, 2006, we executed supplemental indentures with respect to our senior unsecured notes due 2007, 2009 and 2010 (collectively, the Notes), pursuant to our consent solicitation statement dated April 18, 2006, as amended. Holders of approximately 96.7% of the aggregate face amount of the Notes consented to the solicitation. The supplemental indentures contain modifications of certain covenants and related defined terms governing the terms of the Notes to make them consistent with corresponding provisions of the covenants and defined terms included in the senior unsecured notes due 2011 issued on February 16, 2006. The supplemental indentures also include a new covenant that provides for an increase in the interest rate of the Notes upon certain decreases in the ratings assigned by rating agencies to the Notes. In connection with the consent solicitation we paid an aggregate fee of \$2,241,000 to the consenting note holders, which will be amortized into expense over the remaining term of the Notes. In addition, we incurred advisory and professional fees aggregating \$1,415,000, which were expensed in 2006.

The net carrying amount of properties collateralizing the notes and mortgages payable amounted to \$11.631 billion at December 31, 2008. As of December 31, 2008, the principal repayments required for the next five years and thereafter are as follows:

(Amounts in thousands)

Year Ending December 31,	Mortgages Payable	Senior Unsecured Debt
2009	\$ 349,249	\$ 168,460
2010	977,185	200,000
2011	1,978,996	1,298,268
2012	911,606	2,182,699
2013	1,109,516	
Thereafter	3,464,965	

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Shareholders Equity

Preferred Shares

The following table sets forth the details of our preferred shares of beneficial interest outstanding as of December 31, 2008 and 2007.

(Amounts in thousands, except share and per share amounts)

	December 31,	
	2008	2007
6.5% Series A: liquidation preference \$50.00 per share; authorized 5,750,000 shares; issued and outstanding 54,124 and 80,362 shares	\$ 2,762	\$ 4,050
7.0% Series D-10: liquidation preference \$25.00 per share; authorized 4,800,000 shares; issued and outstanding 1,600,000 shares	39,982	39,982
7.0% Series E: liquidation preference \$25.00 per share; authorized 3,450,000 shares; issued and outstanding 3,000,000 shares	72,248	72,248
6.75% Series F: liquidation preference \$25.00 per share; authorized 6,000,000 shares; issued and outstanding 6,000,000 shares	144,720	144,720
6.625% Series G: liquidation preference \$25.00 per share; authorized 9,200,000 shares; issued and outstanding 8,000,000 shares	193,135	193,135
6.75% Series H: liquidation preference \$25.00 per share; authorized 4,600,000 shares; issued and outstanding 4,500,000 shares	108,559	108,559
6.625% Series I: liquidation preference \$25.00 per share; authorized 12,050,000 shares; issued and outstanding 10,800,000 shares	262,401	262,401
	\$ 823,807	\$ 825,095

Series A Convertible Preferred Shares of Beneficial Interest

Holders of Series A Preferred Shares of beneficial interest are entitled to receive dividends in an amount equivalent to \$3.25 per annum per share. These dividends are cumulative and payable quarterly in arrears. The Series A Preferred Shares are convertible at any time at the option of their respective holders at a conversion rate of 1.38504 common shares per Series A Preferred Share, subject to adjustment in certain circumstances. In addition, upon the satisfaction of certain conditions we, at our option, may redeem the \$3.25 Series A Preferred Shares at a current conversion rate of 1.38504 common shares per Series A Preferred Share, subject to adjustment in certain circumstances. At no time will the Series A Preferred Shares be redeemable for cash.

Series D-10 Cumulative Redeemable Preferred Shares of Beneficial Interest

Holders of Series D-10 Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 7.0% of the liquidation preference of \$25.00 per share, or \$1.75 per Series D-10 Preferred Share per annum. These dividends are cumulative and payable quarterly in arrears. The Series D-10 Preferred Shares are not convertible into, or exchangeable for, any other property or any other security of the Company.

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We, at our option, may redeem the Series D-10 Preferred Shares at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series D-10 Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

Series E Cumulative Redeemable Preferred Shares of Beneficial Interest

Holders of Series E Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 7.0% of the liquidation preference of \$25.00 per share, or \$1.75 per Series E Preferred Share per annum. These dividends are cumulative and payable quarterly in arrears. The Series E Preferred Shares are not convertible into, or exchangeable for, any other property or any other security of the Company. On or after August 20, 2009 (or sooner under limited circumstances), we, at our option, may redeem Series E Preferred Shares at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series E Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Shareholders Equity - continued

Series F Cumulative Redeemable Preferred Shares of Beneficial Interest

Holders of Series F Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 6.75% of the liquidation preference of \$25.00 per share, or \$1.6875 per Series F Preferred Share per annum. These dividends are cumulative and payable quarterly in arrears. The Series F Preferred Shares are not convertible into, or exchangeable for, any other property or any other security of the Company. On or after November 17, 2009 (or sooner under limited circumstances), we, at our option, may redeem Series F Preferred Shares at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series F Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

Series G Cumulative Redeemable Preferred Shares of Beneficial Interest

Holders of Series G Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 6.625% of the liquidation preference of \$25.00 per share, or \$1.656 per Series G Preferred Share per annum. These dividends are cumulative and payable quarterly in arrears. The Series G Preferred Shares are not convertible into, or exchangeable for, any other property or any other security of the Company. On or after December 22, 2009 (or sooner under limited circumstances), we, at our option, may redeem Series G Preferred Shares at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series G Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

Series H Cumulative Redeemable Preferred Shares of Beneficial Interest

Holders of the Series H Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 6.75% of the liquidation preference of \$25.00 per share, or \$1.6875 per Series H Preferred Share per annum. The dividends are cumulative and payable quarterly in arrears. The Series H Preferred Shares are not convertible into, or exchangeable for, any other property or any other security of the Company. On or after June 17, 2010 (or sooner under limited circumstances), we, at our option, may redeem Series H Preferred Shares at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series H Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

Series I Cumulative Redeemable Preferred Shares of Beneficial Interest

Holders of the Series I Preferred Shares of beneficial interest are entitled to receive dividends at an annual rate of 6.625% of the liquidation preference of \$25.00 per share, or \$1.656 per Series I Preferred Share per annum. The dividends are cumulative and payable quarterly in arrears. The Series I Preferred Shares are not convertible into, or exchangeable for, any other property or any other security of the Company. On or after August 31, 2010 (or sooner under limited circumstances), we, at our option, may redeem Series I Preferred Shares at a redemption price of \$25.00 per share, plus any accrued and unpaid dividends through the date of redemption. The Series I Preferred Shares have no maturity date and will remain outstanding indefinitely unless redeemed by us.

Accumulated Other Comprehensive Income

Accumulated other comprehensive (loss) income was (\$6,899,000) and \$29,772,000 as of December 31, 2008 and 2007, respectively, and primarily consists of accumulated unrealized (loss) income from the mark-to-market of marketable equity securities classified as available-for-sale.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Stock-based Compensation

Our Share Option Plan (the Plan) provides for grants of incentive and non-qualified stock options, restricted stock, stock appreciation rights and performance shares to certain employees and officers. We have approximately 2,400,000 shares available for future grant under the Plan at December 31, 2008.

In March 2006, our Board of Trustees (the Board) approved an amendment to the Plan to permit the Compensation Committee of the Board (the Compensation Committee) to grant awards in the form of limited partnership units (OP Units) of the Operating Partnership. OP Units can be granted either as free-standing awards or in tandem with other awards under the Plan. OP Units may be converted into the Operating Partnership's Class A common units and, consequently, become convertible by the holder on a one-for-one basis for our common shares or the cash value of such shares at our election.

We account for all stock-based compensation in accordance with SFAS 123R: Stock based compensation expense for the year ended December 31, 2007 and 2006 consists of stock option awards, restricted stock and Operating Partnership unit awards and out-performance plan awards.

2006 Out-Performance Plan

In March 2006, the Board approved the terms of the Vornado Realty Trust 2006 Out-Performance Plan (the 2006 OPP), a long-term pay-for-performance incentive compensation program. The purpose of the 2006 OPP was to further align the interests of our shareholders and management by encouraging our senior officers and employees to create shareholder value. On April 25, 2006, our Compensation Committee approved 2006 OPP awards to a total of 54 employees and officers of the Company, which aggregated 91% of the total 2006 OPP. The fair value of the awards on the date of grant, as adjusted for estimated forfeitures, was approximately \$46,141,000 and is being amortized into expense over the five-year vesting period beginning on the date of grant, using a graded vesting attribution model.

Under the 2006 OPP, award recipients share in a performance pool when our total return to shareholders exceeds a cumulative 30% (for a period of 30 consecutive days), including both share appreciation and dividends paid, from a price per share of \$89.17 (the average closing price per common share for the 30 trading days prior to March 15, 2006). The size of the pool is 10% of the amount in excess of the 30% benchmark, subject to a maximum cap of \$100,000,000. Each award was designated as a specified percentage of the \$100,000,000 maximum cap. Awards were issued in the form of a new class of Operating Partnership units (OPP Units) and are subject to achieving the performance threshold, time vesting and other conditions. OPP Units are convertible by the holder into an equivalent number of the Operating Partnership's Class A units, which are redeemable by the holder for Vornado common shares on a one-for-one basis or the cash value of such shares, at our election. All awards earned vest 33.3% on each of March 15, 2009, 2010 and 2011 subject to continued employment. Once a performance pool has been established, each OPP Unit will receive a distribution equal to the distribution paid on a Class A unit, including an amount payable in OPP Units representing distributions paid on a Class A unit during the performance period. As of January 12, 2007, the maximum performance threshold under the Out-Performance Plan was achieved, concluding the performance period.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Stock-based Compensation - continued

2008 Out-Performance Plan

On March 31, 2008, our Compensation Committee approved a \$75,000,000 out-performance plan (the 2008 OPP) that requires the achievement of performance objectives against both absolute and relative thresholds. The 2008 OPP establishes a potential performance pool in which 78 members of senior management have the opportunity to share if the total return to our shareholders (the Total Return) resulting from both share appreciation and dividends for the four-year period from March 31, 2008 to March 31, 2012 exceeds both an absolute and a relative hurdle. The initial value from which to determine the Total Return is \$86.20 per share, a 0.93% premium to the trailing 10-day average closing price on the New York Stock Exchange for our common shares on the date the plan was adopted.

The size of the out-performance pool for the 2008 OPP is 6% of the aggregate out-performance return subject to a maximum total award of \$75,000,000 (the Maximum Award). The out-performance return is comprised of (i) 3% of the total dollar value of the Total Return in excess of 10% per annum (the Absolute Component), plus (ii) 3% of the total dollar value of the Total Return in excess of the Relative Threshold (the Relative Component), based on the SNL Equity REIT Index (the Index) over the four-year performance period. In the event that the Relative Component creates a negative award as a result of underperforming the Index, the value of any out-performance award potentially earned under the Absolute Component will be reduced dollar for dollar. In addition, awards potentially earned under the Relative Component will be reduced on a ratable sliding scale to the extent the Total Return is less than 10% per annum and to zero to the extent the Total Return is less than 7% per annum. The size of this out-performance pool, if any, will be determined based on the highest 30-trading day trailing average price of our common shares during the final 150 days of the four-year period. During the four-year performance period, participants are entitled to receive 10% of the common dividends paid on Vornado's common shares for each OPP unit awarded, regardless of whether the OPP units are ultimately earned.

The 2008 OPP also provides participants an opportunity to earn partial awards during two interim measurement periods (the Interim Periods): (a) one for a period consisting of the first two years of the performance period and (b) one for a period consisting of the final two years of the performance period. For each Interim Period, participants may be entitled to share in 40% (\$30,000,000) of the maximum \$75,000,000 performance pool if the performance thresholds have been met for the applicable Interim Periods on a pro rated basis. The starting share price for the first Interim Period is \$86.20 per share. The starting share price for the second Interim Period is equal to the greater of our common share price on March 31, 2010, or the initial starting share price of \$86.20 per share less dividends paid during the first two years of the plan. If the maximum award is earned during the first Interim Period, participants lose the potential to earn the second Interim Period award, but not the potential to earn the remainder of the maximum award over the four-year period. The size of any out-performance pool for an Interim Period will be determined based on the highest 30-day trailing average price of our shares during the final 120 days of the applicable Interim Period. Awards earned under the program (including any awards earned for the Interim Periods), will vest 50% on March 31, 2012 and 50% on March 31, 2013. The fair value of the OPP awards on the date of grant, as adjusted for estimated forfeitures, was approximately \$21,600,000, and is being amortized into expense over a five-year period beginning on the date of grant through the final vesting period, using a graded vesting attribution model.

For the years ended December 31, 2008, 2007 and 2006, we recognized \$16,021,000, \$12,734,000 and \$8,293,000 of compensation expense, respectively, in connection with our 2006 and 2008 out-performance plans. The remaining unrecognized compensation expense of \$29,551,000 will be recognized over a weighted-average period of 2.0 years. Distributions paid on unvested OPP Units are charged to minority interest

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expense on our consolidated statements of income and amounted to \$2,918,000, \$2,694,000 and \$0 in 2008, 2007 and 2006, respectively.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Stock-based Compensation - continued

Stock Options

Stock options are granted at an exercise price equal to 100% of the average of the high and low market price of our common shares on the NYSE on the date of grant, generally vest pro-rata over five years and expire 10 years from the date of grant. In 2008, our senior executives were granted options with an exercise price of 17.5% in excess of the average of the high and low market price of our common shares on the NYSE on the date of the grant.

Compensation expense is recognized on a straight-line basis over the vesting period. During the years ended December 31, 2008, 2007, and 2006, we recognized \$9,051,000, \$4,549,000 and \$1,705,000, of compensation expense, respectively, for the portion of stock option awards that vested during each year.

Below is a summary of our stock option activity under the Plan for the year ended December 31, 2008.

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2008	9,725,311	\$49.41		
Granted	2,806,615	101.23		
Exercised	(2,420,749)	35.56		
Cancelled	(120,694)	106.70		
Outstanding at December 31, 2008	9,990,483	\$66.64	5.2	\$ 123,360,000
Options vested and expected to vest at December 31, 2008	9,970,106	\$66.57	5.2	\$ 123,360,000
Options exercisable at December 31, 2008	5,595,718	\$39.68	2.4	\$ 123,356,000

The fair value of each option grant is estimated on the date of grant using an option-pricing model with the following weighted-average assumptions for grants in the years ended December 31, 2008, 2007 and 2006.

	December 31,		
	2008	2007	2006
Expected volatility	19%	17%	17%
Expected life	7.7 years	5 years	5 years
Risk-free interest rate	3.2%	4.5%	4.4%
Expected dividend yield	4.8%	5.0%	5.0%

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The weighted average grant date fair value of options granted during the years ended December 31, 2008, 2007 and 2006 was \$6.80, \$12.55 and \$10.23, respectively. Cash received from option exercises for the years ended December 31, 2008, 2007 and 2006 was \$27,587,000, \$34,648,000 and \$75,665,000, respectively. The total intrinsic value of options exercised during the years ended December 31, 2008, 2007 and 2006 was \$79,997,000, \$99,656,000 and \$244,694,000, respectively.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Stock-based Compensation - continued

Restricted Stock

Restricted stock awards are granted at the average of the high and low market price of our common shares on the NYSE on the date of grant and generally vest over five years. Compensation expense is recognized on a straight-line basis over the vesting period. During the years ended December 31, 2008, 2007 and 2006, we recognized \$3,201,000, \$4,079,000 and \$3,820,000 of compensation expense, respectively, for the portion of restricted stock awards that vested during each year. As of December 31, 2008, there was \$3,772,000 of total unrecognized compensation cost related to nonvested shares granted under the Plan. This cost is expected to be recognized over a weighted-average period of 1.74 years. Dividends paid on unvested shares are charged directly to retained earnings and amounted to \$308,000, \$533,000 and \$842,000 for the years ended December 31, 2008, 2007 and 2006, respectively. The total fair value of shares vested during the years ended December 31, 2008, 2007 and 2006 was \$4,472,000, \$8,907,000 and \$6,170,000, respectively.

Below is a summary of restricted stock activity under the Plan for the year ended December 31, 2008.

Non-vested Shares	Shares	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2008	159,388	\$ 70.07
Granted	6,987	85.20
Vested	(75,593)	57.25
Forfeited	(2,922)	99.81
Non-vested at December 31, 2008	87,860	81.31

Restricted Operating Partnership Units (OP Units)

Restricted OP Units are granted at the average of the high and low market price of our common shares on the NYSE on the date of grant, vest ratably over five years and are subject to a taxable book-up event, as defined. The fair value of these awards on the date of grant, as adjusted for estimated forfeitures, was approximately \$7,167,000, \$10,696,000, and \$3,480,000 for the awards granted in 2008, 2007 and 2006, respectively, and is amortized into expense over the five-year vesting period using a graded vesting attribution model. During the years ended December 31, 2008, 2007 and 2006, we recognized \$6,257,000, \$5,493,000, and \$1,053,000, of compensation expense, respectively, for the portion of Restricted OP Units that vested during last year. As of December 31, 2008, there was \$8,150,000 of total remaining unrecognized compensation cost related to non-vested OP units granted under the Plan and the cost is expected to be recognized over a weighted-average period of 1.78 years. Distributions paid on unvested OP Units are charged to minority interest expense on our consolidated statements of income and amounted to \$938,000, \$444,000, and \$147,000 in 2008, 2007 and 2006, respectively. The total fair value of units vested during the year ended December 31, 2008 was \$1,952,000.

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Below is a summary of restricted OP unit activity under the Plan for the year ended December 31, 2008.

Non-vested Units	Units	Weighted-Average Grant-Date Fair Value
Non-vested at January 1,2008	155,028	\$ 83.37
Granted	112,726	63.58
Vested	(32,993)	82.55
Forfeited	(1,682)	62.31
Non-vested at December 31, 2008	233,079	74.07

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Retirement Plans

Prior to December 2008, we had two defined benefit pension plans, a Vornado Realty Trust Retirement Plan (Vornado Plan) and a Merchandise Mart Properties Pension Plan (Mart Plan). The benefits under the Vornado Plan and the Mart Plan (collectively, the Plans) were frozen in December 1997 and June 1999, respectively. Benefits under the Plans are or were primarily based on years of service and compensation during employment or on years of credited service and established monthly benefits. Funding policy for the Plans was based on contributions at the minimum amounts required by law. In December 2008, we finalized the termination of the Vornado Plan which resulted in a \$4,600,000 pension settlement expense which is included as a component of general and administrative expense on our consolidated statement of income. In addition, during the first quarter of 2009, we expect to finalize the termination of the Mart Plan, which will result in the recognition of a \$2,800,000 pension settlement expense. The financial results of the Mart Plan, using a December 31, measurement date, are provided below.

Obligations and Funded Status

The following table sets forth the Mart Plan s funded status and amounts recognized in our balance sheets:

	2008	2007
(Amounts in thousands)		
Fair value of plan assets at end of year	\$ 11,850	\$ 13,113
Benefit obligation at end of year	13,355	12,430
Funded status at end of year	\$ (1,505)	\$ 683
Amounts recorded in the consolidated balance sheet:		
Other assets (prepaid benefit cost)	\$	\$ 683
Other liabilities (accrued benefit cost)	\$ (1,505)	\$

	Pension Benefits		
	Year Ended December 31,		
	2008	2007	2006
Amounts recognized in accumulated other comprehensive (loss) income consist of:			
Net loss	\$ 2,488	\$ 274	\$

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Leases*As lessor:*

We lease space to tenants under operating leases. Most of the leases provide for the payment of fixed base rentals payable monthly in advance. Office building leases generally require the tenants to reimburse us for operating costs and real estate taxes above their base year costs. Shopping center leases provide for the pass-through to tenants the tenants' share of real estate taxes, insurance and maintenance. Shopping center leases also provide for the payment by the lessee of additional rent based on a percentage of the tenants' sales. As of December 31, 2008, future base rental revenue under non-cancelable operating leases, excluding rents for leases with an original term of less than one year and rents resulting from the exercise of renewal options, is as follows:

(Amounts in thousands)	
Year Ending December 31:	
2009	\$ 1,792,000
2010	1,732,000
2011	1,576,000
2012	1,417,000
2013	1,300,000
Thereafter	7,216,000

These amounts do not include rentals based on tenants' sales. These percentage rents approximated \$7,322,000, \$9,379,000, and \$7,593,000, for the years ended December 31, 2008, 2007, and 2006, respectively.

None of our tenants accounted for more than 10% of total revenues for the years ended December 31, 2008, 2007 and 2006.

Former Bradlees Locations

Pursuant to the Master Agreement and Guaranty, dated May 1, 1992, we are due \$5,000,000 per annum of additional rent from Stop & Shop which was allocated to certain of Bradlees former locations. On December 31, 2002, prior to the expiration of the leases to which the additional rent was allocated, we reallocated this rent to other former Bradlees leases also guaranteed by Stop & Shop. Stop & Shop is contesting our right to reallocate and claims that we are no longer entitled to the additional rent. At December 31, 2008, we are due an aggregate of \$30,400,000. We believe the additional rent provision of the guaranty expires at the earliest in 2012 and we are vigorously contesting Stop & Shop's position.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Leases - continued*As lessee:*

We are a tenant under operating leases for certain properties. These leases have terms that expire during the next thirty years. Future minimum lease payments under operating leases at December 31, 2008, are as follows:

(Amounts in thousands)	
Year Ending December 31:	
2009	\$ 26,346
2010	25,066
2011	24,657
2012	24,865
2013	24,872
Thereafter	1,005,370

Rent expense was \$29,320,000, \$24,503,000, and \$18,655,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

We are also a lessee under capital leases for real estate. Lease terms generally range from 5-20 years with renewal or purchase options. Capitalized leases are recorded at the present value of future minimum lease payments or the fair market value of the property. Capitalized leases are depreciated on a straight-line basis over the estimated life of the asset or life of the related lease, whichever is shorter. Amortization expense on capital leases is included in depreciation and amortization on our consolidated statements of income. As of December 31, 2008, future minimum lease payments under capital leases are as follows:

(Amounts in thousands)	
Year Ending December 31:	
2009	\$ 706
2010	707
2011	706
2012	707
2013	706
Thereafter	18,134
Total minimum obligations	21,666
Interest portion	(14,878)
Present value of net minimum payments	\$ 6,788

At December 31, 2008 and 2007, \$6,788,000 and \$6,820,000, respectively, representing the present value of net minimum payments are included in Other Liabilities on our consolidated balance sheets. Property leased under capital leases had a total cost of \$6,216,000, and related accumulated depreciation of \$1,717,000 and \$1,562,000, at December 31, 2008 and 2007, respectively.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Commitments and Contingencies

Insurance

We carry commercial liability and all risk property insurance ((i) fire, (ii) flood, (iii) extended coverage, (iv) acts of terrorism as defined in the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA), which expires in December 2014, and (v) rental loss insurance) with respect to our assets. Our New York Office, Washington, DC Office, Retail and Merchandise Mart divisions have \$2.0 billion of per occurrence all risk property insurance coverage, including terrorism coverage in effect through September 15, 2009. Our California properties have earthquake insurance with coverage of \$150,000,000 per occurrence, subject to a deductible in the amount of 5% of the value of the affected property, and a \$150,000,000 annual aggregate.

In June 2007 we formed Penn Plaza Insurance Company, LLC (PPIC), a wholly owned consolidated subsidiary, to act as a re-insurer with respect to a portion of our earthquake insurance coverage and as a direct insurer for coverage for certified acts of terrorism and for nuclear, biological, chemical and radiological (NBCR) acts, as defined by the Terrorism Risk Insurance Program Reauthorization Act of 2007 (TRIPRA). Coverage for certified acts of terrorism is fully reinsured by third party insurance companies and the Federal government with no exposure to PPIC. Prior to the formation of PPIC, we were uninsured for losses under NBCR coverage. Subsequently, we have \$2.0 billion of NBCR coverage under TRIPRA, for which PPIC is responsible for 15% of each NBCR loss and the insurance company deductible of \$1,000,000. We are ultimately responsible for any loss borne by PPIC.

We continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. However, we cannot anticipate what coverage will be available on commercially reasonable terms in future policy years.

Our debt instruments, consisting of mortgage loans secured by our properties (which are generally non-recourse to us), senior unsecured notes, exchangeable senior debentures, convertible senior debentures and revolving credit agreements contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. Further, if lenders insist on greater coverage than we are able to obtain it could adversely affect our ability to finance and/or refinance our properties and expand our portfolio.

Other Contractual Obligations

At December 31, 2008, there were \$44,565,000 of outstanding letters of credit under our \$0.965 billion revolving credit facility. Our credit facilities contain financial covenants that require us to maintain minimum interest coverage and maximum debt to market capitalization ratios, and provide for higher interest rates in the event of a decline in our ratings below Baa3/BBB. Our credit facilities also contain customary conditions precedent to borrowing, including representations and warranties and also contain customary events of default that could give rise to accelerated repayment, including such items as failure to pay interest or principal.

Each of our properties has been subjected to varying degrees of environmental assessment at various times. The environmental assessments did not reveal any material environmental contamination. However, there can be no assurance that the identification of new areas of contamination, changes in the extent or known scope of contamination, the discovery of additional sites, or changes in cleanup requirements would not result in

significant costs to us.

We are committed to fund additional capital to certain of our partially owned entities aggregating approximately \$213,352,000. Of this amount, \$80,923,000 is committed to IPF and is pledged as collateral to IPF's lender.

From time to time, we have disposed of substantial amounts of real estate to third parties for which, as to certain properties, we remain contingently liable for rent payments or mortgage indebtedness that we cannot quantify.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Commitments and Contingencies continued

Litigation

We are from time to time involved in various other legal actions arising in the ordinary course of business. In our opinion, after consultation with legal counsel, the outcome of such matters, including the matters referred to above, are not expected to have a material adverse effect on our financial position, results of operations or cash flows.

On January 8, 2003, Stop & Shop filed a complaint with the United States District Court for the District of New Jersey (USDC-NJ) claiming that we had no right to reallocate and therefore continue to collect the \$5,000,000 of annual rent from Stop & Shop pursuant to the Master Agreement and Guaranty, because of the expiration of the East Brunswick, Jersey City, Middletown, Union and Woodbridge leases to which the \$5,000,000 of additional rent was previously allocated. Stop & Shop asserted that a prior order of the Bankruptcy Court for the Southern District of New York dated February 6, 2001, as modified on appeal to the District Court for the Southern District of New York on February 13, 2001, froze our right to reallocate which effectively terminated our right to collect the additional rent from Stop & Shop. On March 3, 2003, after we moved to dismiss for lack of jurisdiction, Stop & Shop voluntarily withdrew its complaint. On March 26, 2003, Stop & Shop filed a new complaint in New York Supreme Court, asserting substantially the same claims as in its USDC-NJ complaint. We removed the action to the United States District Court for the Southern District of New York. In January 2005 that court remanded the action to the New York Supreme Court. On February 14, 2005, we served an answer in which we asserted a counterclaim seeking a judgment for all the unpaid additional rent accruing through the date of the judgment and a declaration that Stop & Shop will continue to be liable for the additional rent as long as any of the leases subject to the Master Agreement and Guaranty remain in effect. On May 17, 2005, we filed a motion for summary judgment. On July 15, 2005, Stop & Shop opposed our motion and filed a cross-motion for summary judgment. On December 13, 2005, the Court issued its decision denying the motions for summary judgment. Both parties appealed the Court's decision and on December 14, 2006, the Appellate Court division issued a decision affirming the Court's decision. On January 16, 2007, we filed a motion for the reconsideration of one aspect of the Appellate Court's decision which was denied on March 13, 2007. We are currently engaged in discovery and anticipate that a trial date will be set for some time in 2009. We intend to vigorously pursue our claims against Stop & Shop. In our opinion, after consultation with legal counsel, the outcome of such matters will not have a material effect on our financial condition, results of operations or cash flows.

On May 24, 2007, we acquired a 70% controlling interest in 1290 Avenue of the Americas and the 555 California Street complex. Our 70% interest was acquired through the purchase of all of the shares of a group of foreign companies that own, through U.S. entities, the 1% sole general partnership interest and a 69% limited partnership interest in the partnerships that own the two properties. The remaining 30% limited partnership interest is owned by Donald J. Trump. In August 2005, Mr. Trump brought a lawsuit in the New York State Supreme Court against, among others, the general partners of the partnerships referred to above. Mr. Trump's claims arose out of a dispute over the sale price of and use of proceeds from, the sale of properties located on the former Penn Central rail yards between West 59th and 72nd Streets in Manhattan which were formerly owned by the partnerships. In decisions dated September 14, 2005 and July 24, 2006, the Court denied several of Mr. Trump's motions and ultimately dismissed all of Mr. Trump's claims, except for his claim seeking access to books and records. In a decision dated October 1, 2007, the Court determined that Mr. Trump had already received access to the books and records to which he was entitled, with the exception of certain documents which were subsequently delivered to Mr. Trump. Mr. Trump sought re-argument and renewal on, and filed a notice of appeal in connection with, his dismissed claims. In a decision dated January 6, 2009, the Court denied all of Mr. Trump's motions. Mr. Trump has filed a notice appealing the 2007 and 2009 decisions. In connection with the acquisition, we agreed to indemnify the sellers for liabilities and expenses arising out of Mr. Trump's claim that the general partners of the partnerships we acquired did not sell the rail yards at a fair price or could have sold the rail yards for a greater price and any other claims asserted in the legal action; provided however, that if Mr. Trump prevails on certain claims involving partnership matters, other than claims relating to sale price, the sellers will be required to reimburse us for certain costs related to those claims. We believe that the claims relating to the sale price are without merit. All other allegations are not asserted as a basis for damages and regardless of merit, and in our opinion, after consultation with legal counsel, will not have a material effect on our financial condition, results of operations or cash flows.

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In July 2005, we acquired H Street Building Corporation (H Street) which has a subsidiary that owns, among other things, a 50% tenancy in common interest in land located in Arlington County, Virginia, known as "Pentagon Row," leased to two tenants. In April 2007, H-Street acquired the remaining 50% interest in that fee. In April 2007, we received letters from those tenants, Street Retail, Inc. and Post Apartment Homes, L.P., claiming they had a right of first offer triggered by each of those transactions. On September 25, 2008, both tenants filed suit against us and the former owners. The claim alleges the right to purchase the fee interest, damages in excess of \$75,000,000 and punitive damages. We believe this claim is without merit and in our opinion, after consultation with legal counsel, will not have a material effect on our financial condition, results of operations or cash flows.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Related Party Transactions

Loan and Compensation Agreements

Pursuant to our annual compensation review in February 2002 with Joseph Macnow, our Chief Financial Officer, the Compensation Committee approved a \$2,000,000 loan to Mr. Macnow, which bore interest at the applicable federal rate of 4.65% per annum and was scheduled to mature in June 2007. The loan was funded on July 23, 2002 and was collateralized by assets with a value of not less than two times the loan amount. On March 26, 2007, Mr. Macnow repaid to us his \$2,000,000 outstanding loan.

Effective as of April 19, 2007, we entered into a new employment agreement with Mitchell Schear, the President of our Washington, DC Office Division. This agreement, which replaced his prior agreement, was approved by the Compensation Committee of our Board of Trustees and provides for a term of five years and is automatically renewable for one-year terms thereafter. The agreement also provides for a minimum salary of \$1,000,000 per year and bonuses and other customary benefits. Pursuant to the terms of the agreement, on April 19, 2007, the Compensation Committee granted options to Mr. Schear to acquire 200,000 of our common shares at an exercise price of \$119.94 per share. These options vest ratably over three years beginning in 2010 and accelerate on a change of control or if we terminate his employment without cause or by him for breach by us. The agreement also provides that if we terminate Mr. Schear's employment without cause or by him for breach by us, he will receive a lump-sum payment equal to one year's salary and bonus, up to a maximum of \$2,000,000.

Transactions with Affiliates and Officers and Trustees of the Company

Alexander's

We own 32.5% of Alexander's. Steven Roth, the Chairman of our Board and Chief Executive Officer, and Michael D. Fascitelli, our President, are officers and directors of Alexander's. We provide various services to Alexander's in accordance with management, development and leasing agreements. These agreements are described in Note 6 - Investments in Partially Owned Entities to our consolidated financial statements in this Annual Report on Form 10-K.

On September 9, 2008, Alexander's Board of Directors declared a special dividend of \$7.00 per share, payable on October 30, 2008, to shareholders of record on October 14, 2008. The dividend was attributable to the liquidation of the wholly owned 731 Lexington Avenue taxable REIT subsidiary into Alexander's. Accordingly, on October 30, we received \$11,578,000, which was accounted for as a reduction of our investment in Alexander's.

On September 15, 2008 and October 14, 2008, Steven Roth, the Chairman of our Board of Directors and Chief Executive Officer, who holds the same positions in Alexander's, exercised an aggregate of 200,000 of his SARs, which were scheduled to expire on March 4, 2009, and received gross proceeds of \$62,809,000.

On March 13, 2007, Michael Fascitelli, our President, who also holds the same position in Alexander's, exercised 350,000 of his SARs, which were scheduled to expire on March 14, 2007, and he received gross proceeds of \$50,465,000.

Interstate Properties (Interstate)

Interstate is a general partnership in which Steven Roth, the Chairman of our Board and Chief Executive Officer, is the managing general partner. David Mandelbaum and Russell B. Wight, Jr., Trustees of Vornado and Directors of Alexander's, are Interstate's two other partners. As of December 31, 2008, Interstate and its partners beneficially owned approximately 8.8% of the common shares of beneficial interest of Vornado and 27.0% of Alexander's common stock.

We manage and lease the real estate assets of Interstate pursuant to a management agreement for which we receive an annual fee equal to 4% of annual base rent and percentage rent. The management agreement has a term of one year and is automatically renewable unless terminated by either of the parties on sixty days' notice at the end of the term. We believe based upon comparable fees charged by other real estate companies that the management agreement terms are fair to us. We earned \$803,000, \$800,000 and \$798,000 of management fees under the agreement for the years ended December 31, 2008, 2007 and 2006.

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VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Minority Interest

Minority interest on our consolidated balance sheets aggregated \$1,590,891,000 and \$2,074,601,000 as of December 31, 2008 and 2007, respectively. Of these balances, \$1,177,977,000 and \$1,658,303,000, respectively, represent third-party limited partners' interests in the Operating Partnership; and \$412,914,000 and \$416,298,000, respectively, represent the minority ownership of consolidated partially owned entities.

Class A units of the Operating Partnership may be tendered for redemption to the Operating Partnership for cash; we, at our option, may assume that obligation and pay the holder either cash or Vornado common shares on a one-for-one basis. Because the number of Vornado common shares outstanding at all times equals the number of Class A units owned by Vornado, the redemption value of each Class A unit is equivalent to the market value of one Vornado common share, and the quarterly distribution to a Class A unitholder is equal to the quarterly dividend paid to a Vornado common shareholder. As of December 31, 2008, as part of our preparation for the adoption of SFAS 160, which is effective for us on January 1, 2009, we have retroactively adopted the measurement provisions of EITF Topic D-98, *Classification and Measurement of Redeemable Securities*, and accordingly, have reduced the carrying amounts of these Class A units by \$404,447,000 and \$467,165,000, as of December 31, 2008 and 2007, respectively, to reflect the change in their redemption value at the end of each reporting period. The corresponding entries for these adjustments were recorded to additional capital. As of December 31, 2008 and 2007, the aggregate redemption value of the then outstanding Class A units of the Operating Partnership owned by third-parties was approximately \$882,740,000 and \$1,365,874,000, respectively.

Details of Operating Partnership units owned by third-parties that are included in minority interest as of December 31, 2008 and 2007 are as follows:

Unit Series	Outstanding Units at		Per Unit Liquidation Preference	Preferred or Annual Distribution Rate	Conversion Rate Into Class A Units
	December 31, 2008	December 31, 2007			
Common:					
Class A	14,627,005	15,530,125	N/A	\$ 3.65	N/A
Convertible Preferred:					
B-1 Convertible Preferred (1)	139,798	139,798	\$ 50.00	\$ 2.50	(1)
B-2 Convertible Preferred (1)	304,761	304,761	\$ 50.00	\$ 4.00	(1)
Perpetual Preferred: (2)					
7.00% D-10 Cumulative Redeemable	3,200,000	3,200,000	\$ 25.00	\$ 1.75	N/A
7.20% D-11 Cumulative Redeemable	1,400,000	1,400,000	\$ 25.00	\$ 1.80	N/A
6.55% D-12 Cumulative Redeemable	800,000	800,000	\$ 25.00	\$ 1.637	N/A
6.75% D-14 Cumulative Redeemable	4,000,000	4,000,000	\$ 25.00	\$ 1.6875	N/A
6.875% D-15 Cumulative Redeemable	1,800,000	1,800,000	\$ 25.00	\$ 1.71875	N/A

- (1) Class B-1 and B-2 units are convertible into Class A units at a rate of 100 Class A units for each pairing of 100 Class B-1 units and 218 Class B-2 units. Class B-1 unitholders are entitled to receive, in liquidation, an amount equal to the positive difference, if any, between the amount paid in liquidation for a Class A unit and the amount paid in respect of a Class B-2 unit multiplied by 2.18. Class B-2 unitholders are entitled to receive in liquidation the lesser of \$50 per unit or the amount paid in respect of a Class A unit on liquidation divided by 2.18. Class B-1 unitholders receive distributions only if, and to the extent that, we pay quarterly dividends on the Class A units in excess of \$0.85 per unit. Class B-2 unitholders are expected to receive quarterly distributions of \$0.39 per unit.

- (2) Holders may tender for redemption to the Operating Partnership for cash at their stated redemption amount; we, at our option, may assume that obligation and pay the hold either cash or Vornado preferred shares on a one-for-one basis. These units are redeemable at our option after the 5th anniversary of the date of issuance (ranging from November 2008 to December 2011).

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Income Per Share

The following table provides a reconciliation of both net income and the number of common shares used in the computation of (i) basic income per common share - which utilizes the weighted average number of common shares outstanding without regard to dilutive potential common shares, and (ii) diluted income per common share - which includes the weighted average common shares and dilutive share equivalents. Potentially dilutive share equivalents include our Series A convertible preferred shares, employee stock options and restricted share awards, exchangeable and convertible senior debentures, as well as Operating Partnership convertible preferred units.

(Amounts in thousands, except per share amounts)

Year Ended December 31,