

VORNADO REALTY TRUST
Form 10-Q
November 04, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended: **September 30, 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: 001-11954

VORNADO REALTY TRUST

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

888 Seventh Avenue, New York, New York
(Address of principal executive offices)

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

10019
(Zip Code)

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

(212) 894-7000

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

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

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

As of September 30, 2008, 154,354,021 of the registrant's common shares of beneficial interest are outstanding.

PART I.	Financial Information:	Page Number
Item 1.	Financial Statements	
	Consolidated Balance Sheets (Unaudited) as of September 30, 2008 and December 31, 2007	3
	Consolidated Statements of Income (Unaudited) for the Three and Nine Months Ended September 30, 2008 and 2007	4
	Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2008 and 2007	5
	Notes to Consolidated Financial Statements (Unaudited)	7
	Report of Independent Registered Public Accounting Firm	33
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	34
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	69
Item 4.	Controls and Procedures	70
PART II.	Other Information:	
Item 1.	Legal Proceedings	71
Item 1A.	Risk Factors	72
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	72
Item 3.	Defaults Upon Senior Securities	72
Item 4.	Submission of Matters to a Vote of Security Holders	72
Item 5.	Other Information	72
Item 6.	Exhibits	72
Signatures		73
Exhibit Index		74

Part 1. FINANCIAL INFORMATION**Item 1. Financial Statements****VORNADO REALTY TRUST****CONSOLIDATED BALANCE SHEETS****(UNAUDITED)**

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

	September 30, 2008	December 31, 2007
ASSETS		
Real estate, at cost:		
Land	\$ 4,417,272	\$ 4,576,479
Buildings and improvements	11,869,677	11,523,977
Development costs and construction in progress	1,048,500	821,991
Leasehold improvements	114,521	106,060
Total	17,449,970	17,028,507
Less accumulated depreciation and amortization	(2,063,168)	(1,802,055)
Real estate, net	15,386,802	15,226,452
Cash and cash equivalents	1,529,012	1,154,595
Escrow deposits and restricted cash	390,353	378,732
Marketable securities	249,102	322,992
Accounts receivable, net of allowance for doubtful accounts of \$27,581 and \$19,151	263,375	168,183
Investments in partially owned entities, including Alexander's of \$130,887 and \$122,797	1,059,497	1,206,742
Investment in Toys 'R Us	334,444	298,089
Mezzanine loans receivable, net of allowance of \$46,700 and \$57,000	468,531	492,339
Receivable arising from the straight-lining of rents, net of allowance of \$3,780 and \$3,076	571,770	513,137
Deferred leasing and financing costs, net of accumulated amortization of \$158,541 and \$123,624	300,964	273,958
Assets related to discontinued operations	110,370	1,632,318
Due from officers	13,185	13,228
Other assets	766,735	798,170
	\$ 21,444,140	\$ 22,478,935
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes and mortgages payable	\$ 8,669,651	\$ 7,938,457
Convertible senior debentures	2,367,650	2,360,412
Senior unsecured notes	649,188	698,656
Exchangeable senior debentures	494,090	492,857
Revolving credit facility debt	10,218	405,656
Accounts payable and accrued expenses	599,005	480,123
Deferred credit	760,913	848,852
Deferred compensation plan	80,302	67,714
Deferred tax liabilities	19,829	241,895
Other liabilities	139,707	118,983
Liabilities related to discontinued operations	750	1,332,630
Total liabilities	13,791,303	14,986,235
Minority interest, including unitholders in the Operating Partnership	1,370,255	1,374,301
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	823,782	825,095
Common shares of beneficial interest: \$0.04 par value per share; authorized, 250,000,000 shares; issued and outstanding 154,354,021 and 153,076,606 shares	6,234	6,140

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Additional capital	5,403,850	5,339,570
Earnings in excess of (less than) distributions	57,391	(82,178)
Accumulated other comprehensive (loss) income	(8,675)	29,772
Total shareholders' equity	6,282,582	6,118,399
	\$ 21,444,140	\$ 22,478,935

See notes to consolidated financial statements (unaudited).

3

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Amounts in thousands, except per share amounts)	For The Three Months		For The Nine Months	
	Ended September 30, 2008	2007	Ended September 30, 2008	2007
REVENUES:				
Property rentals	\$ 548,475	\$ 519,780	\$ 1,640,764	\$ 1,432,519
Tenant expense reimbursements	97,912	89,293	269,970	238,983
Fee and other income	30,758	28,005	90,058	81,848
Total revenues	677,145	637,078	2,000,792	1,753,350
EXPENSES:				
Operating	276,302	259,000	793,911	697,961
Depreciation and amortization	136,705	118,994	398,263	317,915
General and administrative	49,495	47,888	149,165	138,091
Costs of acquisitions and development not consummated	5,000		8,009	8,807
Total expenses	467,502	425,882	1,349,348	1,162,774
Operating income	209,643	211,196	651,444	590,576
(Loss) income applicable to Alexander's	(6,876)	12,111	16,404	35,114
(Loss) income applicable to Toys 'R Us	(8,141)	(20,289)	41,510	18,343
(Loss) income from partially owned entities	(3,099)	13,561	(29,167)	30,451
Interest and other investment income, net	9,638	56,581	47,535	229,774
Interest and debt expense (including amortization of deferred financing costs of \$4,257 and \$3,537 in each three-month period, respectively, and \$13,181 and \$11,051 in each nine-month period, respectively)	(148,039)	(149,722)	(446,534)	(420,713)
Net gains on disposition of wholly owned and partially owned assets other than depreciable real estate	5,160	1,012	8,546	17,699
Minority interest of partially owned entities	466	(282)	2,709	1,414
Income before income taxes	58,752	124,168	292,447	502,658
Income tax (expense) benefit	(5,244)	(2,806)	207,170	(5,403)
Income from continuing operations	53,508	121,362	499,617	497,255
Income from discontinued operations, net of minority interest	102	24,538	154,442	25,162
Income before allocation to minority limited partners	53,610	145,900	654,059	522,417
Minority limited partners' interest in the Operating Partnership	(3,091)	(10,241)	(42,046)	(44,270)
Perpetual preferred unit distributions of the Operating Partnership	(4,818)	(4,818)	(14,455)	(14,455)
Net income	45,701	130,841	597,558	463,692
Preferred share dividends	(14,271)	(14,295)	(42,820)	(42,886)
NET INCOME applicable to common shares	\$ 31,430	\$ 116,546	\$ 554,738	\$ 420,806
INCOME PER COMMON SHARE BASIC:				
Income from continuing operations	\$ 0.20	\$ 0.61	\$ 2.60	\$ 2.61
Income from discontinued operations		0.16	1.01	0.16
Net income per common share	\$ 0.20	\$ 0.77	\$ 3.61	\$ 2.77
INCOME PER COMMON SHARE DILUTED:				
Income from continuing operations	\$ 0.20	\$ 0.58	\$ 2.54	\$ 2.49
Income from discontinued operations		0.16	0.94	0.16
Net income per common share	\$ 0.20	\$ 0.74	\$ 3.48	\$ 2.65
DIVIDENDS PER COMMON SHARE	\$ 0.90	\$ 0.85	\$ 2.70	\$ 2.55

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)	For The Nine Months Ended	
	September 30, 2008	2007
Cash Flows from Operating Activities:		
Net income	\$ 597,558	\$ 463,692
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization (including amortization of debt issuance costs)	437,567	392,578
Write-off of deferred tax liability	(222,174)	
Net gain on sale of Americold	(112,690)	
Equity in income of partially owned entities, including Alexander's and Toys	(70,490)	(85,056)
Net gains on sale of real estate	(57,523)	(27,745)
Minority limited partners' interest in the Operating Partnership	58,136	47,010
Amortization of below market leases, net	(73,655)	(58,810)
Straight-lining of rental income	(63,184)	(58,492)
Write-off of pre-development costs	34,200	
Net losses (gains) from derivative positions	25,812	(100,060)
Distributions of income from partially owned entities	12,021	18,047
Other non-cash adjustments	36,387	14,311
Perpetual preferred unit distributions of the Operating Partnership	14,455	14,455
Marketable equity securities' impairment losses	20,881	
Minority interest of partially owned entities	(6,284)	(11,819)
Net gains on dispositions of wholly owned and partially owned assets other than depreciable real estate	(8,546)	(17,699)
Write-off for costs of acquisitions and development not consummated	8,009	8,807
Loss on early extinguishment of debt and write-off of unamortized financing costs		7,670
Changes in operating assets and liabilities:		
Accounts receivable, net	(8,825)	(17,899)
Other assets	(73,529)	(75,330)
Accounts payable and accrued expenses	88,973	(20,242)
Other liabilities	10,510	(6,325)
Net cash provided by operating activities	647,609	487,093
Cash Flows from Investing Activities:		
Proceeds from sales of real estate and real estate related investments	352,511	217,941
Development costs and construction in progress	(413,947)	(231,575)
Distributions of capital from partially owned entities	182,090	13,315
Investments in partially owned entities	(115,250)	(201,432)
Additions to real estate	(158,434)	(108,935)
Proceeds received from repayment of mezzanine loans receivable	52,032	126,629
Acquisitions of real estate and other	(36,566)	(2,775,982)
Deposits in connection with real estate acquisitions, including pre-acquisition costs	(10,616)	(21,231)
Proceeds from sales of, and return of investment in, marketable securities	47,723	57,341
Investments in mezzanine loans receivable	(7,397)	(211,942)
Cash restricted, including mortgage escrows	(22,674)	(13,245)
Purchases of marketable securities	(8,035)	(152,683)
Proceeds received on settlement of derivatives		234,242
Proceeds received from Officer loan repayment		2,000
Net cash used in investing activities	(138,563)	(3,065,557)

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

(UNAUDITED)

	For The Nine Months	
	Ended September 30,	
	2008	2007
(Amounts in thousands)		
Cash Flows from Financing Activities:		
Proceeds from borrowings	1,424,458	2,517,105
Repayments of borrowings	(1,043,734)	(727,730)
Dividends paid on common shares	(415,169)	(387,268)
Distributions to minority partners	(65,925)	(62,169)
Dividends paid on preferred shares	(42,841)	(42,940)
Debt issuance costs	(13,399)	(13,229)
Proceeds from exercise of share options and other	21,981	4,744
Purchase of marketable securities in connection with the defeasance of mortgage notes payable		(109,092)
Net cash (used in) provided by financing activities	(134,629)	1,179,421
Net increase (decrease) in cash and cash equivalents	374,417	(1,399,043)
Cash and cash equivalents at beginning of period	1,154,595	2,233,317
Cash and cash equivalents at end of period	\$ 1,529,012	\$ 834,274
 Supplemental Disclosure of Cash Flow Information:		
Cash payments for interest (including capitalized interest of \$49,241 and \$39,287)	\$463,458	\$457,669
Cash payments for income taxes	\$6,153	\$25,969
 Non-Cash Transactions:		
Financing assumed in acquisitions	\$	\$1,326,514
Marketable securities transferred in connection with the defeasance of mortgage notes payable		109,092
Mortgage notes payable defeased		104,571
Conversion of Class A Operating Partnership units to common shares	32,585	41,390
Unrealized net loss on securities available for sale	27,902	32,889
Operating partnership units issued in connection with acquisitions		22,382
Increases in assets and liabilities resulting from the consolidation of our 50% investment in H Street partially owned entities upon acquisition of the remaining 50% interest on April 30, 2007:		
Real estate, net		342,764
Restricted cash		369
Other assets		11,648
Notes and mortgages payable		55,272
Accounts payable and accrued expenses		3,101
Deferred credit		2,407
Deferred tax liabilities		112,797
Other liabilities		71

See notes to consolidated financial statements (unaudited).

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. Organization

Vornado Realty Trust 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). All references to we, us, our, the Company and Vornado refer to Vornado Realty Trust and its consolidated subsidiaries. We are the sole general partner of, and owned approximately 90.5% of the common limited partnership interest in, the Operating Partnership at September 30, 2008.

Substantially all of our assets are held through subsidiaries of the Operating Partnership. Accordingly, our cash flow and ability to pay dividends to our shareholders are dependent upon the cash flow of the Operating Partnership and the ability of its direct and indirect subsidiaries to first satisfy their obligations to creditors.

2. Basis of Presentation

The accompanying consolidated financial statements are unaudited. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (the SEC) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the SEC. The results of operations for the three and nine months ended September 30, 2008, are not necessarily indicative of the operating results for the full year.

The accompanying consolidated financial statements include the accounts of Vornado and the Operating Partnership, as well as certain partially owned entities in which we own more than 50%, unless a partner has shared board and management representation and substantive participation rights on all significant business decisions, or 50% or less when (i) we are the primary beneficiary and the entity qualifies as a variable interest entity under Financial Accounting Standards Board (FASB) Interpretation No. 46 (Revised) *Consolidation of Variable Interest Entities* (FIN 46R), or (ii) when we are a general partner that meets the criteria under Emerging Issues Task Force (EITF) Issue No. 04-5. All significant inter-company amounts have been eliminated. Equity interests in partially owned entities are accounted for under the equity method of accounting when they do not meet the criteria for consolidation and our ownership interest is greater than 20%. When partially owned investments are in partnership form, the 20% threshold for equity method accounting is generally reduced to 3% to 5%, based on our ability to influence the operating and financial policies of the partnership. Investments accounted for under the equity method are initially recorded at cost and subsequently adjusted for our share of the net income or loss and cash contributions and distributions to or from these entities. Investments in partially owned entities that do not meet the criteria for consolidation or for equity method accounting are accounted for on the cost method.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Certain prior year balances related to discontinued operations and income tax (expense) benefit have been reclassified in order to conform to current year presentation.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

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.

7

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

3. Recently Issued Accounting Literature

In September 2006, the 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 consist of (i) marketable securities, (ii) derivative positions in marketable securities and (iii) 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 sheet. Financial assets and liabilities measured at fair value as of September 30, 2008 are presented in the table below based on their level in the fair value hierarchy.

(Amounts in thousands)	Total	Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Marketable securities	\$ 146,469	\$ 146,469	\$	\$
Deferred compensation plan assets	80,302	40,646		39,656 (2)
Interest rate caps	40		40	
Total Assets, measured at fair value (1)	\$ 226,811	\$ 187,115	\$ 40	\$ 39,656
Derivative positions in marketable equity securities	\$ 8,978	\$	\$ 8,978	\$
Deferred compensation plan liabilities	80,302	40,646		39,656 (2)
Total Liabilities, measured at fair value (1)	\$ 89,280	\$ 40,646	\$ 8,978	\$ 39,656

(1) We chose not to elect the fair value option prescribed by Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (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.

(2) 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 three and nine months ended September 30, 2008.

(Amounts in thousands)	Beginning Balance	Total Realized/ Unrealized Gains/ (Losses)	Purchases, Sales, Other Settlements and Issuances, net	Ending Balance
For the three months ended September 30, 2008	\$ 41,028	\$ (1,688)	\$ 316	\$ 39,656
	\$ 50,578	\$ (10,115)	\$ (807)	\$ 39,656

For the nine months ended
September 30, 2008

8

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

3. Recently Issued Accounting Literature - continued

In September 2006, the FASB issued Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of SFAS No. 87, 88, 106 and 132R* (SFAS 158). SFAS 158 requires an employer to (i) recognize in its statement of financial position an asset for a plan's over-funded status or a liability for a plan's under-funded status; (ii) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (iii) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income. The adoption of the requirement to recognize the funded status of a benefit plan and the disclosure requirements as of December 31, 2006 did not have a material effect on our consolidated financial statements. The requirement to measure plan assets and benefit obligations to determine the funded status as of the end of the fiscal year and to recognize changes in the funded status in the year in which the changes occur is effective on January 1, 2009. The adoption of the measurement date provisions of this standard is not expected to have a material effect on our consolidated financial statements.

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 our future financial results to the extent that we acquire significant amounts of real estate, as related 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. SFAS 160 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 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 FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, 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)

(UNAUDITED)

3. Recently Issued Accounting Literature - 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). 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 FSP is effective for our fiscal year beginning on January 1, 2009 and requires retroactive application. The adoption of the FSP on January 1, 2009 will result in the recognition of an aggregate unamortized debt discount of \$151,422,000 (as of September 30, 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	35,065
2009	37,808
2010	40,066
2011	41,065
2012	8,188

In May 2008, the FASB issued Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). The purpose of this statement is to improve financial reporting by providing a consistent framework for determining applicable accounting principles to be used in the preparation of financial statements presented in conformity with GAAP. SFAS 162 will become effective 60 days after the SEC 's approval. We believe that the adoption of this standard on its effective date will not have a material effect on our consolidated financial statements.

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 any effect on our consolidated financial statements.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Investments in Partially Owned Entities*Toys R Us (Toys)*

Toys prepares its consolidated financial statements using the historical cost basis (Recap basis) of accounting. We account for our investment in Toys on the purchase accounting 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 quarter ended June 30, 2008. This non-cash charge had no effect on cash actually paid for income taxes or Toys' previously issued Recap basis consolidated financial statements.

At September 30, 2008, we owned 32.7% of Toys. Toys' business 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. Below is a summary of Toys' latest available financial information presented on a purchase accounting basis.

(Amounts in millions)

Balance Sheet:	August 2, 2008	August 4, 2007
Total Assets	\$ 11,868	\$ 11,256
Total Liabilities	\$ 10,617	\$ 10,213
Total Equity	\$ 1,251	\$ 1,043

	For the Three		For the Nine	
	Months Ended		Months Ended	
Income Statement:	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
Total Revenues	\$ 2,771	\$ 2,605	\$ 11,317	\$ 10,865
Net (Loss) Income	\$ (31	)\$ (71	) \$ 113	\$ 40

Alexander's (NYSE: ALX)

At September 30, 2008, we owned 32.6% of the outstanding common stock of Alexander's. We manage, lease and develop Alexander's properties pursuant to agreements that expire in March of each year and are automatically renewed. As of September 30, 2008, Alexander's owed us \$43,609,000 in fees under these agreements.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Based on Alexander's September 30, 2008 closing share price on the NYSE of \$400.00, the market value (fair value pursuant to SFAS 157) of our investment in Alexander's is \$661,627,000, or \$530,740,000 in excess of the carrying amount on our consolidated balance sheet.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Investments in Partially Owned Entities continued

The Lexington Master Limited Partnership (Lexington MLP)

At September 30, 2008, we owned 8,149,594 limited partnership units of Lexington MLP which are exchangeable on a one-for-one basis into common shares of Lexington Realty Trust (Lexington) (NYSE: LXP) or a 7.7% limited partnership interest. We account for our investment on the equity method. We record our pro rata share of Lexington MLP'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 September 30, 2008 closing share price of \$17.22, the market value (fair value pursuant to SFAS 157) of our investment in Lexington MLP was \$140,336,000, or \$7,175,000 below the carrying amount on our consolidated balance sheet. We have concluded that our investment is other-than-temporarily impaired and recorded a \$7,175,000 non-cash impairment loss on our consolidated statement of income. Our conclusion was based on the recent deterioration in the capital and financial markets and our inability to forecast a recovery in the near-term.

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 of Lexington MLP for 8,149,592 common shares of Lexington. We now own 16,149,592 Lexington common shares, or approximately 17.6% of Lexington's common equity, with a carrying amount of \$185,136,000, or \$11.46 per share.

The market value of Lexington's common shares declined substantially subsequent to September 30, 2008, as did share prices of many public companies. Based on Lexington's October 31, 2008 closing share price of \$8.03, the market value of our investment is approximately \$55,500,000 below its carrying amount.

GMH Communities L.P. (GMH)

Prior to June 11, 2008, we owned 7,337,857 GMH limited partnership units, which were exchangeable on a one-for-one basis into common shares of GMH Communities Trust (GCT) (NYSE: GCT), and 2,517,247 common shares of GCT, or 13.8% of the limited partnership interest of GMH, which had an aggregate carrying amount of \$101,634,000, or \$10.31 per share/unit.

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), subsequent to June 11, 2008 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 was recognized in the quarter ended June 30, 2008, and 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.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

The aggregate net income realized from inception of this investment in 2004 through its disposition was \$77,000,000.

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 nine months ended September 30, 2008, we funded an aggregate of \$48,898,000 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 September 30, 2008, our aggregate investment in all of these ventures was \$91,077,000 and our remaining capital commitment is approximately \$192,000,000. At September 30, 2008 and December 31, 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.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Investments in Partially Owned Entities - continued

The carrying amount of our investments in partially owned entities and income (loss) recognized from such investments are as follows:

Investments:

(Amounts in thousands)

	Balance at September 30, 2008	December 31, 2007
Toys	\$ 334,444	\$ 298,089
Lexington MLP (see page 12)	\$ 140,336	\$ 160,868
Partially Owned Office Buildings	265,400	215,153
GMH (sold in June 2008)		103,260
India Real Estate Ventures	91,077	123,997
Alexander s	130,887	122,797
Beverly Connection Joint Venture (Beverly Connection)	101,505	91,302
Other Equity Method Investments	330,292	389,365
	\$ 1,059,497	\$ 1,206,742

Our Share of Net Income (Loss):

(Amounts in thousands)

	For the Three Months Ended September 30, 2008		For the Nine Months Ended September 30, 2008	
	2008	2007	2008	2007
Toys:				
32.7% share of equity in net (loss) income (see page 11)	\$ (10,107)	\$ (21,997)	\$ 35,550	\$ 13,493
Interest and other income	1,966	1,708	5,960	4,850
	\$ (8,141)	\$ (20,289)	\$ 41,510	\$ 18,343
Alexander s:				
32.6% share of:				
Equity in net income before stock appreciation rights				
compensation (expense) income	\$ 4,294	\$ 5,508	\$ 14,752	\$ 16,277
Stock appreciation rights compensation (expense) income	(14,557)	3,075	(7,605)	8,991
Equity in net (loss) income	(10,263)	8,583	7,147	25,268
Management and leasing fees	2,054	2,255	6,160	6,777
Development fees	1,333	1,273	3,097	3,069
	\$ (6,876)	\$ 12,111	\$ 16,404	\$ 35,114
Beverly Connection:				
50% share of equity in net loss	\$ (4,585)	(1) \$ (1,287)	\$ (3,950)	(1) (2) \$ (3,676)
Interest and fee income	3,686	3,885	10,630	8,492
	(899)	2,598	6,680	4,816
Lexington MLP 7.7% share of equity in net (loss) income (see page 12)	(6,040)	1,726	(4,153)	1,484
H Street partially owned entities 50% share of equity in net income				5,923 (3)
GMH 13.8% share of equity in net income		5,709		5,428
India Real Estate Ventures 4% to 50% share of equity in net losses	(835)		(1,863)	
Other (4)	4,675	3,528	(29,831)	(5) 12,800
	\$ (3,099)	\$ 13,561	\$ (29,167)	\$ 30,451

See notes on following page.

13

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Investments in Partially Owned Entities - continued

Notes to preceding tabular information

(Amounts in thousands):

- (1) 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.
- (2) 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 APB 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.
- (3) 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.
- (4) 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.
- (5) Includes a \$34,200 write-off for our share of two joint ventures' pre-development costs, of which \$23,000 represents our 50% share of costs in connection with the abandonment of the arena move /Moynihan East portions of the Farley project.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Investments in Partially Owned Entities - continued

Below is a summary of the debt of partially owned entities as of September 30, 2008 and December 31, 2007, none of which is guaranteed by us.

	100% of Partially Owned Entities Debt at	
	September 30, 2008	December 31, 2007
(Amounts in thousands)		
Toys (32.7% interest) (as of August 2, 2008 and November 3, 2007, respectively):		
\$1.3 billion senior credit facility, due 2010, (6.14% at September 30, 2008)	\$ 1,300,000	\$ 1,300,000
\$2.0 billion credit facility, due 2010, LIBOR plus 1.00%-3.75% (\$104,000 reserved for outstanding letters of credit)		489,000
Mortgage loan, due 2010, LIBOR plus 1.30% (3.79% at September 30, 2008)	800,000	800,000
\$804 million secured term loan facility, due 2012, LIBOR plus 4.25% (7.06% at September 30, 2008)	797,000	797,000
Senior U.K. real estate facility, due 2013, with interest at 5.02%	699,000	741,000
7.625% bonds, due 2011 (Face value \$500,000)	485,000	481,000
7.875% senior notes, due 2013 (Face value \$400,000)	376,000	373,000
7.375% senior notes, due 2018 (Face value \$400,000)	334,000	331,000
4.51% Spanish real estate facility, due 2013	205,000	193,000
\$181 million unsecured term loan facility, due 2013, LIBOR plus 5.00% (7.49% at September 30, 2008)	180,000	180,000
Japan bank loans, due 2011-2014, 1.20%-2.80%	148,000	161,000
Japan borrowings, due 2009-2011 (weighted average rate of 1.33% at September 30, 2008)	268,000	243,000
6.84% Junior U.K. real estate facility, due 2013	124,000	132,000
4.51% French real estate facility, due 2013	99,000	93,000
8.750% debentures, due 2021 (Face value \$22,000)	21,000	21,000
Note at an effective cost of 2.23% due in semi-annual installments through 2008		19,000
Multi-currency revolving credit facility, due 2010, LIBOR plus 1.50%-2.00%		28,000
Other	58,000	41,000
	5,894,000	6,423,000
Alexander s (32.6% 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)	376,224	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)	200,565	203,456
Rego Park construction loan payable, due in December 2010 with a one-year extension, LIBOR plus 1.20% (3.69% at September 30, 2008)	143,571	55,786
Rego Park mortgage note payable, due in June 2009, with interest at 7.25% (prepayable without penalty after March 2009)	78,625	79,285
Paramus mortgage note payable, due in October 2011, with interest at 5.92% (prepayable without penalty)	68,000	68,000
	1,186,985	1,110,197

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Lexington MLP (7.7% interest) (as of June 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)	2,540,201	3,320,261
--	-----------	-----------

GMH 13.8% interest in mortgage notes payable		995,818
--	--	---------

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Investments in Partially Owned Entities - continued

(Amounts in thousands)	100% of	
	Partially Owned Entities Debt at September 30, 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 5.72% at September 30, 2008 (various prepayment terms)	\$ 143,306	\$ 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) mortgage note payable (refinanced in May 2008 up to \$150,000), due in June 2015, LIBOR plus 1.50% with interest at 3.99%	70,000	60,000
Fairfax Square (20% interest) mortgage note payable, due in August 2009, with interest at 7.50%	63,130	64,035
Rosslyn Plaza (46% interest) mortgage note payable, due in December 2011, LIBOR plus 1.0% (3.49% at September 30, 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)	21,524	21,808
India Real Estate Ventures:		
TCG Urban Infrastructure Holdings (25% interest) mortgage notes payable, collateralized by the entity's real estate, due from 2008 to 2022, with a weighted average interest rate of 13.23% at September 30, 2008 (various prepayment terms)	158,267	136,431
India Property Fund L.P. (36.5% interest) \$120 million secured revolving credit facility, due in December 2009, LIBOR plus 2.75% (5.25% at September 30, 2008)	85,500	
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% (6.27% at September 30, 2008)	36,312	
Verde Realty Master Limited Partnership (8.5% interest) mortgage notes payable, collateralized by the partnerships' real estate, due from 2008 to 2037, with a weighted average interest rate of 6.06% at September 30, 2008 (various prepayment terms)	576,303	487,122
Green Courte Real Estate Partners, LLC (8.3% interest) mortgage notes payable, collateralized by the partnerships' real estate, due from 2008 to 2015, with a weighted average interest rate of 5.52% at September 30, 2008 (various prepayment terms)	306,642	225,704
Beverly Connection (50% interest) mortgage and mezzanine loans payable, with a weighted average interest rate of 9.37%, \$107,082 of which is due to Vornado	207,082	170,000
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% (4.25% at September 30, 2008)	123,945	101,045
	14,155	14,422

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Wells/Kinzie Garage (50% interest) mortgage note payable, due in June 2009, with interest at 7.03%

Orleans Hubbard Garage (50% interest) mortgage note payable, due in April 2009, with interest at 7.03%

Other

8,875

9,045

295,961

282,320

Based on our ownership interest in the partially owned entities above, our pro rata share of the debt of these partially owned entities was \$3,045,615,000 and \$3,289,873,000 as of September 30, 2008 and December 31, 2007, respectively.

16

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

5. Mezzanine Loans Receivable

The following is a summary of our investments in mezzanine loans as of September 30, 2008 and December 31, 2007.

(Amounts in thousands)		Interest Rate at September 30, 2008	Carrying Amount at September 30, 2008	December 31, 2007
Mezzanine Loans Receivable:	Maturity			
Equinox	02/13	14.00%	\$81,324	\$73,162
Tharaldson Lodging Companies	04/09	6.70%	76,341	76,219
Riley HoldCo Corp.	02/15	10.00%	74,353	74,268
280 Park Avenue MPH, net of a valuation allowance of \$46,700 and \$57,000, respectively (1)	06/16	10.25%	73,750	73,750
Other	(1)	(1)	19,300	9,000
	01/09-12/18	4.75% - 12.0%	143,463	185,940
			\$468,531	\$492,339

- (1) 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 which was included as a reduction of interest and other investment income in our 2007 consolidated statement of income. On April 2, 2008, we sold a sub-participation interest in the loans for \$19,300. The sub-participation did not meet the criteria for sale accounting under Statement of Financial Accounting Standard No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140) because the sub-participant is not free to pledge or exchange the asset. In the first quarter of 2008, we reduced our valuation allowance from \$57,000 to \$46,700, resulting in the recognition of \$10,300 of interest and other investment income in our consolidated statement of income.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. Identified Intangible Assets, Intangible Liabilities and Goodwill

The following summarizes our identified intangible assets (primarily acquired above-market leases), intangible liabilities (primarily acquired below-market leases) and goodwill as of September 30, 2008 and December 31, 2007.

(Amounts in thousands)	Balance at September 30, 2008	December 31, 2007
Identified intangible assets (included in other assets):		
Gross amount	\$ 781,483	\$ 727,205
Accumulated amortization	(225,968)	(163,688)
Net	\$ 555,515	\$ 563,517
Goodwill (included in other assets):		
Gross amount	\$ 4,345	\$ 4,345
Identified intangible liabilities (included in deferred credit):		
Gross amount	\$ 965,786	\$ 977,574
Accumulated amortization	(251,013)	(163,473)
Net	\$ 714,773	\$ 814,101

Amortization of acquired below market leases, net of acquired above market leases (a component of rental income) was \$24,526,000 and \$24,499,000 for the three months ended September 30, 2008 and 2007, respectively, and \$73,655,000 and \$58,842,000 for the nine months ended September 30, 2008 and 2007, respectively. 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	\$ 68,026
2010	60,845
2011	57,909
2012	54,221
2013	46,274

Amortization of all other identified intangible assets (a component of depreciation and amortization expense) was \$21,239,000 and \$10,647,000 for the three months ended September 30, 2008 and 2007, respectively, and \$65,502,000 and \$33,100,000 for the nine months ended September 30, 2008 and 2007, respectively. 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	\$ 58,731
2010	56,088
2011	53,672
2012	49,074
2013	41,170

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

We are a tenant under ground leases for certain of our properties. Amortization of these acquired below market leases resulted in an increase to rent expense of \$533,000 and \$394,000 for the three months ended September 30, 2008 and 2007, respectively, and \$1,599,000 and \$1,183,000 for the nine months ended September 30, 2008 and 2007, respectively. Estimated annual 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

18

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

7. Debt

The following is a summary of our notes and mortgages payable:

(Amounts in thousands)	Maturity (1)	Interest Rate at September 30, 2008	Balance at September 30, 2008	December 31, 2007
Notes and Mortgages Payable:				
Fixed Interest:				
New York Office:				
1290 Avenue of the Americas	01/13	5.97%	\$ 447,118	\$ 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%	288,581	292,000
909 Third Avenue	04/15	5.64%	214,906	217,266
Eleven Penn Plaza	12/11	5.20%	207,744	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
1215, 1225, 1235 Clark Street, 200 12 th Street and 251 18 th Street	07/12-01/25	6.75%-7.09%	200,987	203,679
River House Apartment Complex (2)	04/15	5.43%	195,546	46,339
2011 and 2231 Crystal Drive	10/09-08/13	6.88%-7.08%	89,662	150,084
1550, 1750 Crystal Drive and 241 18 th Street	10/10-11/14	6.82%-7.08%	131,429	133,471
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%	88,282	89,514
Universal Buildings	04/14	4.88%	60,532	62,613
1750 Pennsylvania Avenue	06/12	7.26%	46,737	47,204
1800, 1851, 1901 South Bell Street	12/11	6.91%	29,803	35,558
Retail:				
Cross collateralized mortgages on				
42 shopping centers	03/10	7.93%	450,118	455,907
Springfield Mall (including present value of purchase option)	10/12-04/13	5.45%	253,832	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%	95,437	97,050
828-850 Madison Avenue Condominium	06/18	5.29%	80,000	80,000
Las Catalinas Mall	11/13	6.97%	61,116	62,130
Other	05/09-11/34	4.00%-7.57%	163,522	165,299
Merchandise Mart:				
Merchandise Mart	12/16	5.57%	550,000	550,000
High Point Complex	08/16	6.34%	220,982	221,258
Boston Design Center	09/15	5.02%	71,003	71,750
Washington Design Center	11/11	6.95%	45,173	45,679

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Other:				
555 California Street	05/10-09/11	5.97%	720,409	719,568
Industrial Warehouses	10/11	6.95%	25,370	25,656
Total Fixed Interest Notes and Mortgages Payable		5.96%	7,138,565	7,230,932

See notes on page 21.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

7. Debt - continued

(Amounts in thousands)

				Interest Rate at	Balance at	December
				September 30,	September	31,
Notes and Mortgages Payable:	Maturity (1)	Spread over		2008	30,	2007
Variable Interest:		LIBOR			2008	
New York Office:						
Manhattan Mall	02/12	L+55		3.04%	\$ 232,000	\$ 232,000
866 UN Plaza	05/11	L+40		3.15%	44,978	44,978
Washington, DC Office:						
2101 L Street (4)	02/13	L+120		4.91%	150,000	
Courthouse Plaza One and Two	01/15	L+75		3.24%	71,739	74,200
River House Apartments (2)	04/18	(2)		3.81%	64,000	
Commerce Executive III, IV and V	07/09	L+55		3.04%	50,223	50,223
1999 K Street (5)	12/10	L+130		5.01%	59,230	
220 20 th Street (6)	01/11	L+115		4.34%	27,291	
West End 25 (7)	02/11	L+130		3.79%	15,583	
Retail:						
Green Acres Mall (3)	02/13	L+140		3.89%	335,000	
Bergen Town Center (8)	03/13	L+150		3.94%	214,279	
Other:						
220 Central Park South	11/10	L+235	L+245	4.87%	128,998	128,998
India Property Fund L.P. (9)	(9)	(9)				82,500
Other	07/09	10/10	Various	5.47%	137,765	94,626
Total Variable Interest Notes and Mortgages Payable				4.06%	1,531,086	707,525
Total Notes and Mortgages Payable				5.62%	\$ 8,669,651	\$ 7,938,457
Convertible Senior Debentures:						
Due 2027	04/12			2.85%	\$ 1,380,478	\$ 1,376,278
Due 2026	11/11			3.63%	987,172	984,134
Total Convertible Senior Debentures				3.17%	\$ 2,367,650	\$ 2,360,412
Senior Unsecured Notes:						
Senior unsecured notes due 2009 (10)	08/09			4.50%	\$ 199,721	\$ 249,365
Senior unsecured notes due 2010	12/10			4.75%	199,577	199,436
Senior unsecured notes due 2011	02/11			5.60%	249,890	249,855
Total Senior Unsecured Notes				4.96%	\$ 649,188	\$ 698,656
Exchangeable Senior Debentures due 2025						
	04/12			3.88%	\$ 494,090	\$ 492,857
Unsecured Revolving Credit Facilities:						
\$1.595 billion unsecured revolving credit facility	09/12	L+55 ⁽¹²⁾			\$	\$ 300,000
\$965 billion unsecured revolving credit facility (11)						
(\$45,690 reserved for outstanding letters of credit)	06/11	L+50 ⁽¹²⁾		2.99%	10,218	105,656
Total Unsecured Revolving Credit Facilities					\$ 10,218	\$ 405,656

See notes on following page.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

7. 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% (3.81% at September 30, 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% (3.89% at September 30, 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% (4.91% at September 30, 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% (5.01% at September 30, 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% (4.34% at September 30, 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% (3.79% at September 30, 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% (3.94% at September 30, 2008) and matures in March 2011 with two one-year extension options.
- 9)

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

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%.

- 10) On September 9, 2008, we purchased \$50,000 of our senior unsecured notes due August 15, 2009 for \$49,746.

- 11) 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.

- 12) Requires the payment of an annual facility fee of 15 basis points.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

8. Fee and Other Income

The following table sets forth the details of our fee and other income:

(Amounts in thousands)	For the Three Months		For the Nine Months	
	Ended September 30, 2008	2007	Ended September 30, 2008	2007
Tenant cleaning fees	\$ 13,627	\$ 13,028	\$ 41,431	\$ 33,398
Management and leasing fees	2,518	2,891	10,326	12,894
Lease termination fees	1,455	1,574	4,469	6,295
Other income	13,158	10,512	33,832	29,261
	\$ 30,758	\$ 28,005	\$ 90,058	\$ 81,848

Fee and other income above include management fee income from Interstate Properties, a related party, of \$196,000 and \$183,000 for the three months ended September 30, 2008 and 2007, respectively, and \$604,000 and \$593,000 for the nine months ended September 30, 2008 and 2007, respectively.

9. Discontinued Operations

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

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

In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, we classified our Temperature Controlled Logistics segment and our Tysons Dulles Plaza office building complex as discontinued operations and reported their revenues and expenses as income from discontinued operations, net of minority interest and the related assets and liabilities as assets related to discontinued operations and liabilities related to discontinued operations for all periods presented in the accompanying consolidated financial statements. The following table sets forth the assets (primarily net book value of real estate) and liabilities (primarily mortgage debt) related to discontinued operations at September 30, 2008 and December 31, 2007.

(Amounts in thousands)	Assets related to		Liabilities related to	
	Discontinued Operations at September 30, 2008	December 31, 2007	Discontinued Operations at September 30, 2008	December 31, 2007
H Street land under sales contract	\$ 108,282	\$ 108,470	\$	\$
Retail properties	2,088	4,030		
Americold		1,424,770	750	1,332,627
Tysons Dulles Plaza		95,048		3

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

\$ 110,370 \$ 1,632,318 \$ 750 \$ 1,332,630

The following table sets forth the combined results of discontinued operations for the three and nine months ended September 30, 2008 and 2007.

(Amounts in thousands)	For the Three Months		For the Nine Months		
	Ended September 30, 2008	2007	Ended September 30, 2008	2007	
Revenues	\$	\$216,957	\$222,361	\$ 633,825	
Expenses	10	220,164	238,132	636,408	
Net loss	(10) (3,207) (15,771) (2,583)
Net gain on sale of Americold			112,690		
Net gain on sale of Tysons Dulles Plaza			56,831		
Net gain on sale of Crystal Mall Two		19,893		19,893	
Net gains on sale of other real estate	112	7,852	692	7,852	
Income from discontinued operations, net of minority interest	\$ 102	\$24,538	\$154,442	\$ 25,162	

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

10. Income Per Share

The table below computes (i) basic income per common share - which utilizes weighted average common shares outstanding without regard to potentially dilutive common shares, and (ii) diluted income per common share - which includes weighted average common shares outstanding and dilutive common share equivalents. Potentially dilutive common share equivalents include our Series A convertible preferred shares, employee stock options and restricted share awards, exchangeable senior debentures due 2025, as well as Operating Partnership convertible preferred units.

(Amounts in thousands, except per share amounts)	For The Three Months		For The Nine Months	
	Ended September 30,		Ended September 30,	
	2008	2007	2008	2007
Numerator:				
Income from continuing operations, net of minority interest in the Operating Partnership	\$ 45,599	\$ 106,303	\$ 443,116	\$ 438,530
Income from discontinued operations, net of minority interest	102	24,538	154,442	25,162
Net income	45,701	130,841	597,558	463,692
Preferred share dividends	(14,271)	(14,295)	(42,820)	(42,886)
Numerator for basic income per share net income applicable to common shares	31,430	116,546	554,738	420,806
Impact of assumed conversions:				
Interest on 3.875% exchangeable senior debentures			15,764	
Convertible preferred share dividends		68	145	588
Numerator for diluted income per share net income applicable to common shares	\$ 31,430	\$ 116,614	\$ 570,647	\$ 421,394
Denominator:				
Denominator for basic income per share weighted average shares	154,025	151,990	153,668	151,739
Effect of dilutive securities (1):				
Employee stock options and restricted share awards	4,663	6,407	4,609	6,742
3.875% exchangeable senior debentures			5,559	
Convertible preferred shares		116	82	264
Denominator for diluted income per share adjusted weighted average shares and assumed conversions	158,688	158,513	163,918	158,745
INCOME PER COMMON SHARE BASIC:				
Income from continuing operations	\$ 0.20	\$ 0.61	\$ 2.60	\$ 2.61
Income from discontinued operations, net of minority interest		0.16	1.01	0.16
Net income per common share	\$ 0.20	\$ 0.77	\$ 3.61	\$ 2.77
INCOME PER COMMON SHARE DILUTED:				
Income from continuing operations	\$ 0.20	\$ 0.58	\$ 2.54	\$ 2.49
Income from discontinued operations, net of minority interest		0.16	0.94	0.16
Net income per common share	\$ 0.20	\$ 0.74	\$ 3.48	\$ 2.65

- (1) The effect of dilutive securities above excludes anti-dilutive weighted average common share equivalents. Accordingly, the three and nine months ended September 30, 2008 exclude 25,226 and 19,308 weighted average common share equivalents, respectively. The three and nine months ended September 30, 2007 exclude 22,881 and 22,544 weighted average common share equivalents, respectively.

11. Comprehensive Income

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

(Amounts in thousands)	For The Three Months		For The Nine Months	
	Ended September 30, 2008	2007	Ended September 30, 2008	2007
Net income	\$45,701	\$ 130,841	\$597,558	\$463,692
Other comprehensive income (loss)	19,656	(5,337)	(38,447)	(30,295)
Comprehensive income	\$ 65,357	\$ 125,504	\$ 559,111	\$433,397

Accumulated other comprehensive (loss) income was (\$8,675,000) and \$29,772,000 as of September 30, 2008 and December 31, 2007, respectively, and consists primarily of accumulated unrealized (loss) income from the mark-to-market of marketable equity securities classified as available-for-sale.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

12. Stock-based Compensation

Our Share Option Plan (the *Plan*) provides for grants of incentive and non-qualified stock options, restricted stock, stock appreciation rights, performance shares and limited partnership units to certain of our employees and officers. We account for stock-based compensation in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation - Transition and Disclosure* and as revised by SFAS No. 123R, *Share-Based Payment* (SFAS 123R). We adopted SFAS 123R, using the modified prospective application, on January 1, 2006. Stock based compensation expense for the three and nine months ended September 30, 2008 and 2007 consists of stock option awards, restricted common shares, Operating Partnership unit awards and Out-Performance Plan awards. We recognized \$8,789,000 and \$25,762,000 of stock based compensation expense in the three and nine months ended September 30, 2008, respectively, of which \$4,284,000 and \$11,732,000, respectively, relates to our 2006 and 2008 out-performance plans. During the three and nine months ended September 30, 2007, we recognized \$6,177,000 and \$18,797,000 of stock based compensation expense, respectively.

On March 31, 2008, our Compensation Committee approved a grant of Vornado stock options to senior executives and employees. The options were granted with an exercise price 17.5% in excess of the average of the high and low price of our common shares on the New York Stock Exchange on that date. The options are expensed pro rata over the 5-year vesting period in accordance with SFAS 123R.

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 in 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

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

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 2008 OPP is accounted for in accordance with SFAS 123R. 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.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

13. Commitments and Contingencies

At September 30, 2008, there were \$45,690,000 of outstanding letters of credit under our \$.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 provides 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.

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 under 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.

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.

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 \$215,000,000. Of this amount, \$80,923,000 is committed to IPF and is pledged as collateral to IPF's lender. We have also guaranteed the completion of two joint venture development projects for which the aggregate estimated cost to complete both projects is approximately \$88,700,000.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

We enter into agreements for the purchase and resale of U.S. government obligations for periods of up to one week. The obligations purchased under these agreements are held in safekeeping in our name by various money center banks. We have the right to demand additional collateral or return of these invested funds at any time the collateral value is less than 102% of the invested funds plus any accrued earnings thereon. We had \$56,180,000 and \$82,240,000 of cash invested in these agreements at September 30, 2008 and December 31, 2007, respectively.

On January 16, 2008, our Board of Trustees approved the termination of the Vornado Realty Trust Retirement Plan and the Merchandise Mart Properties Pension Plan. The plans were frozen in 1998 and 1999, respectively. The termination is expected to be completed in the fourth quarter of 2008. Our current estimate of the cost we will incur during the fourth quarter of 2008 to buy annuities from an insurance company or to make lump-sum payments to plan participants to terminate both plans is approximately \$4,000,000.

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 cannot be quantified.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

13. Commitments and Contingencies - continued

Litigation

On January 8, 2003, Stop & Shop filed a complaint with the United States District Court for the District of New Jersey (USDC-NJ) claiming we had no right to reallocate and therefore continue to collect \$5,000,000 of annual rent from Stop & Shop pursuant to the Master Agreement and Guaranty. 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 various 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 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 has sought re-argument and renewal on, and filed a notice of appeal in connection with, his dismissed claims. 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 would not be material to our consolidated financial statements.

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, we 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 will not have a material effect on our financial condition, results of operations or cash flows.

There are various other legal actions against us in the ordinary course of business. We believe the outcome of such matters will not have a material effect on our financial condition, results of operations or cash flows.

26

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

14. Retirement Plans

On January 16, 2008, our Board of Trustees approved the termination of the Vornado Realty Trust Retirement Plan (Vornado Plan) and the Merchandise Mart Properties Pension Plan (Mart Plan). The termination is expected to be completed in the fourth quarter of 2008. Our current estimate of the cost we will incur during the fourth quarter of 2008 to buy annuities from an insurance company or to make lump-sum payments to plan participants to terminate both plans is approximately \$4,000,000.

The following table sets forth the components of net periodic benefit costs:

(Amounts in thousands)	For The Three Months		For The Nine Months	
	Ended September 30, 2008	2007	Ended September 30, 2008	2007
Service cost	\$	\$	\$	\$
Interest cost	292	293	876	878
Expected return on plan assets	(309)	(299)	(927)	(897)
Amortization of net loss	64	61	193	183
Net periodic benefit cost	\$ 47	\$ 55	\$ 142	\$ 164

Employer Contributions

During the nine months ended September 30, 2008 and 2007, we contributed \$403,000 and \$1,005,000, respectively, to the plans. We anticipate making additional contributions of \$2,113,000 to the plans during the remainder of 2008.

15. Marketable Equity Securities

At March 31, 2008, we concluded that an investment in a marketable equity security was other-than-temporarily impaired and recognized a non-cash impairment charge \$9,073,000, based on the March 31, 2008 closing share price of that security. At September 30, 2008, we concluded that certain other investments in marketable equity securities were other-than-temporarily impaired based on the severity of the declines in the market value (fair value pursuant to SFAS 157) of those securities at September 30, 2008 and, accordingly, we recognized a non-cash impairment charge of \$11,808,000. These non-cash charges are included in interest and other investment income, net on our consolidated statement of income. Based on the October 31, 2008 closing share prices of these securities, their market value is approximate \$39,100,000 below their carrying amount.

16. Costs of Acquisitions and Development not Consummated

In the first and second quarters of 2008, we wrote-off an aggregate of \$3,009,000 of costs associated with acquisitions not consummated (primarily Hudson Yards). In the first quarter of 2007, we wrote-off \$8,807,000 of costs associated with the Equity Office Properties Trust acquisition not consummated.

During the quarter ended September 30, 2008, we recognized a \$5,000,000 non-cash charge to write-down the carrying amount of land held for development to its fair value.

27

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

17. Segment Information

Below is a summary of net income and a reconciliation of net income to EBITDA⁽¹⁾ by segment for the three months ended September 30, 2008 and 2007.

(Amounts in thousands)

	For the Three Months Ended September 30, 2008						
	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other ⁽²⁾
Property rentals	\$501,475	\$ 181,758	\$ 128,382	\$ 86,590	\$ 53,167	\$	\$51,578
Straight-line rents:							
Contractual rent increases	14,404	8,077	418	3,805	1,738		366
Amortization of free rent	8,070	3,649	2,925	1,539	(2)	)	(41)
Amortization of acquired below-							
market leases, net	24,526	14,807	1,089	7,491	26		1,113
Total rentals	548,475	208,291	132,814	99,425	54,929		53,016
Tenant expense reimbursements	97,912	40,632	14,601	33,383	5,294		4,002
Fee and other income:							
Tenant cleaning revenue	13,627	17,751					(4,124)
Management and leasing fees	2,518	1,138	1,875	411	95		(1,001)
Lease termination fees	1,455	21	1,037	362	35		
Other	13,158	3,626	5,701	1,876	2,676		(721)
Total revenues	677,145	271,459	156,028	135,457	63,029		51,172
Operating expenses	276,302	120,398	56,680	50,248	31,773		17,203
Depreciation and amortization	136,705	48,322	35,929	21,904	12,751		17,799
General and administrative	49,495	5,263	6,427	7,398	7,419		22,988
Costs of acquisitions and development not							
consummated	5,000						5,000
Total expenses	467,502	173,983	99,036	79,550	51,943		62,990
Operating income (loss)	209,643	97,476	56,992	55,907	11,086		(11,818)
(Loss) income applicable to Alexander's	(6,876)	) 189		191			(7,256)
Loss applicable to Toys	(8,141)	)				(8,141))
(Loss) income from partially owned							
entities	(3,099)	) 3,429	1,696	25	158		(8,407)
Interest and other investment income, net	9,638	542	507	92	49		8,448
Interest and debt expense	(148,039)	(34,647)	(31,323)	(21,445)	(13,150)	)	(47,474)
Net gains (losses) on disposition of wholly							
owned and partially owned assets							
other than depreciable real estate	5,160						5,160
Minority interest of partially owned							
entities	466	(1,545)	)	30			1,981
Income (loss) before income taxes	58,752	65,444	27,872	34,800	(1,857)	(8,141)	(59,366)
Income tax expense	(5,244)	)	(699)	(5)	(814)	)	(3,726)
Income (loss) from continuing operations	53,508	65,444	27,173	34,795	(2,671)	(8,141)	(63,092)
Income (loss) from discontinued							
operations, net	102			112			(10)
Income (loss) before allocation to minority limited							
partners	53,610	65,444	27,173	34,907	(2,671)	(8,141)	(63,102)
Minority limited partners' interest in the Operating							
Partnership	(3,091)	)					(3,091)
Perpetual preferred unit distributions of the Operating							
Partnership	(4,818)	)					(4,818)
Net income (loss)	45,701	65,444	27,173	34,907	(2,671)	(8,141)	(71,011)
Interest and debt expense ⁽¹⁾	192,839	32,979	32,244	26,733	13,360	33,569	53,954

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Depreciation and amortization ⁽¹⁾	179,574	46,113	37,222	23,488	12,885	35,155	24,711
Income tax expense (benefit) ⁽¹⁾	(5,063)		701	5	814	(10,944)	4,361
EBITDA ⁽¹⁾	\$413,051	\$ 144,536	\$ 97,340	\$ 85,133	\$ 24,388	\$ 49,639	\$ 12,015

The Other segment EBITDA includes \$23,983 for non-cash impairment charges (primarily marketable securities and our investment Lexington MLP), a \$3,982 net loss on the mark-to-market of derivative instruments and a \$3,570 after-tax net gain on sale of residential condominiums at our 40 East 66th Street property.

See notes on page 32.

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

17. Segment Information continued

(Amounts in thousands)

For the Three Months Ended September 30, 2007

	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other ⁽²⁾
Property rentals	\$ 478,951	\$ 173,180	\$ 120,540	\$ 83,184	\$ 53,922	\$	\$ 48,125
Straight-line rents:							
Contractual rent increases	10,533	3,124	3,333	2,986	1,034		56
Amortization of free rent	5,797	1,562	3,346	44	98		747
Amortization of acquired below-							
market leases, net	24,499	15,216	1,066	6,272	10		1,935
Total rentals	519,780	193,082	128,285	92,486	55,064		50,863
Tenant expense reimbursements	89,293	35,701	12,065	30,338	6,632		4,557
Fee and other income:							
Tenant cleaning revenue	13,028	15,672					(2,644)
Management and leasing fees	2,891	1,494	2,178	310	8		(1,099)
Lease termination fees	1,574	1,326	(1)	51	198		
Other	10,512	4,058	4,317	515	1,769		(147)
Total revenues	637,078	251,333	146,844	123,700	63,671		51,530
Operating expenses	259,000	106,616	50,825	43,656	33,791		24,112
Depreciation and amortization	118,994	41,346	30,521	19,634	12,110		15,383
General and administrative	47,888	5,330	6,247	6,739	7,439		22,133
Total expenses	425,882	153,292	87,593	70,029	53,340		61,628
Operating income (loss)	211,196	98,041	59,251	53,671	10,331		(10,098)
Income applicable to Alexander's	12,111	189		187			11,735
Loss applicable to Toys	(20,289)					(20,289)	
Income (loss) from partially owned entities	13,561	2,745	743	3,972	(50)		6,151
Interest and other investment income, net	56,581	668	3,558	195	104		52,056
Interest and debt expense	(149,722)	(36,186)	(31,289)	(19,423)	(13,174)		(49,650)
Net gains (losses) on disposition of wholly owned and partially owned assets other than depreciable real estate	1,012						1,012
Minority interest of partially owned entities	(282)	(1,613)		54			1,277
Income (loss) before income taxes	124,168	63,844	32,263	38,656	(2,789)	(20,289)	12,483
Income tax expense	(2,806)		(2,349)	(3)	(153)		(301)
Income (loss) from continuing operations	121,362	63,844	29,914	38,653	(2,942)	(20,289)	12,182
Income (loss) from discontinued operations, net	24,538		25,550	3,078			(4,090)
Income (loss) before allocation to minority limited partners	145,900	63,844	55,464	41,731	(2,942)	(20,289)	8,092
Minority limited partners' interest in the Operating Partnership	(10,241)						(10,241)
Perpetual preferred unit distributions of the Operating Partnership	(4,818)						(4,818)
Net income (loss)	130,841	63,844	55,464	41,731	(2,942)	(20,289)	(6,967)
Interest and debt expense ⁽¹⁾	207,934	34,853	31,999	21,947	13,388	40,875	64,872
Depreciation and amortization ⁽¹⁾	171,106	39,543	33,474	20,617	12,260	34,495	30,717
Income tax (benefit) expense ⁽¹⁾	(13,094)	952	2,353	3	153	(18,213)	1,658
EBITDA ⁽¹⁾	\$ 496,787	\$ 139,192	\$ 123,290	\$ 84,298	\$ 22,859	\$ 36,868	\$ 90,280

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

The Washington, DC Office segment EBITDA and the Retail segment EBITDA includes \$24,696 and \$3,049, respectively, of net gains on sale of real estate (included in Income (loss) from discontinued operations, net). The Other segment EBITDA includes an \$18,606 net gain on the mark-to-market of derivative instruments and a \$1,012 net gain on sale of marketable equity securities.

See notes on page 32.

29

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

17. Segment Information - continued

(Amounts in thousands)

For the Nine Months Ended September 30, 2008

	New York		Washington, DC	Merchandise			Other ⁽²⁾
	Total	Office	Office	Retail	Mart	Toys	
Property rentals	\$1,503,925	\$ 539,254	\$ 377,867	\$ 260,279	\$ 179,606	\$	\$ 146,919
Straight-line rents:							
Contractual rent increases	45,724	20,860	6,861	12,867	4,531		605
Amortization of free rent	17,460	8,106	5,759	319	2,662		614
Amortization of acquired below-market leases, net	73,655	45,548	3,305	20,016	84		4,702
Total rentals	1,640,764	613,768	393,792	293,481	186,883		152,840
Tenant expense reimbursements	269,970	103,230	44,649	98,251	14,715		9,125
Fee and other income:							
Tenant cleaning revenue	41,431	53,415					(11,984)
Management and leasing fees	10,326	5,035	6,983	974	306		(2,972)
Lease termination fees	4,469	2,050	1,037	1,027	355		
Other	33,832	11,876	14,802	2,016	5,749		(611)
Total revenues	2,000,792	789,374	461,263	395,749	208,008		146,398
Operating expenses	793,911	333,845	161,220	144,648	102,747		51,451
Depreciation and amortization	398,263	143,549	104,899	63,596	38,324		47,895
General and administrative	149,165	14,906	18,824	23,105	21,921		70,409
Costs of acquisitions and development not consummated	8,009						8,009
Total expenses	1,349,348	492,300	284,943	231,349	162,992		177,764
Operating income (loss)	651,444	297,074	176,320	164,400	45,016		(31,366)
Income applicable to Alexander's	16,404	568		529			15,307
Income applicable to Toys	41,510					41,510	
(Loss) income from partially owned entities	(29,167)	8,566	4,548	9,889	978		(53,148)
Interest and other investment income, net	47,535	1,965	1,737	422	221		43,190
Interest and debt expense	(446,534)	(104,032)	(94,085)	(63,981)	(39,190)		(145,246)
Net gains (losses) on disposition of wholly owned and partially owned assets other than depreciable real estate	8,546						8,546
Minority interest of partially owned entities	2,709	(3,366)		104			5,971
Income (loss) before income taxes	292,447	200,775	88,520	111,363	7,025	41,510	(156,746)
Income tax benefit (expense)	207,170		220,916	(7)	(1,205)		(12,534)
Income (loss) from continuing operations	499,617	200,775	309,436	111,356	5,820	41,510	(169,280)
Income (loss) from discontinued operations, net	154,442		59,068	(448)			95,822
Income (loss) before allocation to minority limited partners	654,059	200,775	368,504	110,908	5,820	41,510	(73,458)
Minority limited partners' interest in the Operating Partnership	(42,046)						(42,046)
Perpetual preferred unit distributions of the Operating Partnership	(14,455)						(14,455)
Net income (loss)	597,558	200,775	368,504	110,908	5,820	41,510	(129,959)
Interest and debt expense ⁽¹⁾	593,039	98,810	96,958	76,492	39,823	108,970	171,986
Depreciation and amortization ⁽¹⁾	531,252	136,738	110,334	67,456	38,711	103,291	74,722
Income tax (benefit) expense ⁽¹⁾	(121,844)		(220,911)	7)	1,205)	82,778	15,077
EBITDA ⁽¹⁾	\$1,600,005	\$ 436,323	\$ 354,885	\$ 254,863	\$ 85,559	\$ 336,549	\$ 131,826

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

The Washington, DC Office segment EBITDA includes a \$222,174 reduction in income tax expense resulting from a reversal of deferred tax liabilities in connection with the acquisition of H Street, and a \$56,831 net gain on sale of real estate (included in Income (loss) from discontinued operations, net). The Other segment EBITDA includes, a \$112,690 net gain on sale of our 47.6% interest in Americold (included in Income (loss) from discontinued operations, net), a \$34,200 write-off of pre-development costs, a \$25,812 net loss on the mark-to-market of derivative instruments, \$28,056 of other non-cash charges, a \$3,570 after-tax net gain on sale of residential condominiums at our 40 East 66th Street property, an \$8,009 write-off for costs of acquisitions and development not consummated and a \$2,038 net gain on disposition of our 13.8% interest in GMH.

See notes on page 32.

30

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

17. Segment Information continued

(Amounts in thousands)

For the Nine Months Ended September 30, 2007

	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other ⁽²⁾
Property rentals	\$1,315,862	\$463,678	\$336,304	\$240,975	\$172,431	\$	\$102,474
Straight-line rents:							
Contractual rent increases	28,571	11,003	6,074	8,794	2,317		383
Amortization of free rent	29,244	14,747	11,939	555	1,044		959
Amortization of acquired below-market leases, net	58,842	32,895	3,210	19,119	130		3,488
Total rentals	1,432,519	522,323	357,527	269,443	175,922		107,304
Tenant expense reimbursements	238,983	94,051	32,659	87,922	16,339		8,012
Fee and other income:							
Tenant cleaning revenue	33,398	40,820					(7,422)
Management and leasing fees	12,894	3,323	10,711	1,234	11		(2,385)
Lease termination fees	6,295	3,224	210	2,458	403		
Other	29,261	12,081	11,568	1,170	5,203		(761)
Total revenues	1,753,350	675,822	412,675	362,227	197,878		104,748
Operating expenses	697,961	288,155	134,049	125,861	97,168		52,728
Depreciation and amortization	317,915	107,895	83,801	59,026	33,957		33,236
General and administrative	138,091	14,778	20,708	20,070	21,806		60,729
Costs of acquisitions and development not consummated	8,807						8,807
Total expenses	1,162,774	410,828	238,558	204,957	152,931		155,500
Operating income (loss)	590,576	264,994	174,117	157,270	44,947		(50,752)
Income applicable to Alexander's	35,114	567		560			33,987
Income applicable to Toys	18,343					18,343	
Income from partially owned entities	30,451	5,932	8,178	7,360	737		8,244
Interest and other investment income, net	229,774	1,810	4,609	387	292		222,676
Interest and debt expense	(420,713)	(97,767)	(96,331)	(59,206)	(39,069)		(128,340)
Net gains (losses) on disposition of wholly owned and partially owned assets other than depreciable real estate	17,699						17,699
Minority interest of partially owned entities	1,414	(2,182)		112			3,484
Income before income taxes	502,658	173,354	90,573	106,483	6,907	18,343	106,998
Income tax expense	(5,403)		(3,992)	(185)	(665)		(561)
Income from continuing operations	497,255	173,354	86,581	106,298	6,242	18,343	106,437
Income (loss) from discontinued operations, net	25,162		27,840	3,000			(5,678)
Income before allocation to minority limited partners	522,417	173,354	114,421	109,298	6,242	18,343	100,759
Minority limited partners' interest in the Operating Partnership	(44,270)						(44,270)
Perpetual preferred unit distributions of the Operating Partnership	(14,455)						(14,455)
Net income	463,692	173,354	114,421	109,298	6,242	18,343	42,034
Interest and debt expense ⁽¹⁾	609,548	96,822	100,002	67,222	39,716	128,493	177,293
Depreciation and amortization ⁽¹⁾	500,247	106,885	95,784	61,815	34,387	123,194	78,182
Income tax expense ⁽¹⁾	34,419	2,052	7,816	185	665	20,250	3,451
EBITDA ⁽¹⁾	\$1,607,906	\$379,113	\$318,023	\$238,520	\$81,010	\$290,280	\$300,960

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

The Washington, DC Office segment EBITDA and the Retail segment EBITDA includes \$24,696 and \$3,049, respectively, of net gains on sale of real estate (included in Income (loss) from discontinued operations, net). The Other segment EBITDA includes a \$100,060 net gain on the mark-to-market of derivative instruments, a \$17,699 net gain on sale of marketable equity securities, an \$8,807 write-off for costs of acquisition not consummated and \$1,677 of expense for our share of India real estate ventures organization costs.

See notes on the following page.

31

VORNADO REALTY TRUST

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

17. Segment Information continued

Notes to preceding tabular information

(1) EBITDA represents Earnings Before Interest, Taxes, Depreciation and Amortization. We consider EBITDA a supplemental measure for making decisions and assessing the un-levered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on a multiple of EBITDA, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.

(2) Other EBITDA is comprised of:

(Amounts in thousands)	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
555 California Street (acquired in May 2007)	\$ 12,295	\$ 12,164	\$35,554	\$18,513
Hotel Pennsylvania	11,907	9,973	29,772	24,754
Lexington MLP	10,803	9,022	29,271	15,006
Industrial warehouses	1,361	1,399	4,025	3,595
Alexander s	68	19,012	37,180	56,511
GMH (see page 12)		9,527		17,872
Other investments	6,427	1,964	1,488	6,927
	42,861	63,061	137,290	143,178
Corporate general and administrative expenses	(19,633)	(20,518)	(62,101)	(53,882)
Impairment loss- Lexington MLP	(7,175)		(7,175)	
Perpetual preferred unit distributions of the Operating Partnership	(4,818)	(4,818)	(14,455)	(14,455)
Minority limited partners interest in the Operating Partnership	(3,091)	(10,241)	(42,046)	(44,270)
Investment income and other	8,871	46,551	44,001	229,385
Write-off of pre-development costs (see footnote (5) on page 14)			(34,200)	
Costs of acquisitions and development not consummated	(5,000)		(8,009)	(8,807)
Discontinued operations of Americold, net (including a \$112,690 net gain on sale in the nine months ended September 30, 2008)		16,245	118,521	49,811
	\$ 12,015	\$ 90,280	\$131,826	\$300,960

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Trustees

Vornado Realty Trust

New York, New York

We have reviewed the accompanying consolidated balance sheet of Vornado Realty Trust as of September 30, 2008, and the related consolidated statements of income for the three-month and nine-month periods ended September 30, 2008 and 2007, and of cash flows for the nine-month periods ended September 30, 2008 and 2007. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Vornado Realty Trust as of December 31, 2007, and the related consolidated statements of income, shareholders equity, and cash flows for the year then ended prior to reclassification for the discontinued operations described in Note 9 to the accompanying financial statements (not presented herein); and in our report dated February 26, 2008, we expressed an unqualified opinion on those consolidated financial statements. We also audited the adjustments described in Note 9 that were applied to reclassify the December 31, 2007 consolidated balance sheet of Vornado Realty Trust (not presented herein) for discontinued operations. In our opinion, such adjustments are appropriate and have been properly applied to the previously issued consolidated balance sheet in deriving the accompanying retrospectively adjusted consolidated balance sheet as of December 31, 2007.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey

November 4, 2008

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as approximates, believes, expects, anticipates, estimates, intends, plans, and other similar expressions in this Quarterly Report on Form 10-Q. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements and our future results and financial condition, see Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2007. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q.

Management's Discussion and Analysis of Financial Condition and Results of Operations include a discussion of our consolidated financial statements for the three and nine months ended September 30, 2008. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 from those estimates.

Critical Accounting Policies

A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2007 in Management's Discussion and Analysis of Financial Condition. There have been no significant changes to our policies during 2008.

OverviewBusiness Objective and Operating Strategy

Our business objective is to maximize shareholder value. We measure our success in meeting this objective by our total return to shareholders. Below is a table comparing our performance to the Morgan Stanley REIT Index (RMS) and the SNL REIT Index (SNL) for the following periods ending September 30, 2008:

	Total Return ⁽¹⁾		
	Vornado	RMS	SNL
One-year	(13.8%)	(11.6%)	(9.9%)
Three-years	17.8%	17.1%	19.2%
Five-years	134.4%	85.8%	91.0%
Ten-years	365.3%	221.5%	228.0%

(1) Past performance is not necessarily indicative of how we will perform in the future.

We intend to achieve our business objective by continuing to pursue our investment philosophy and executing our operating strategies through:

- Maintaining a superior team of operating and investment professionals and an entrepreneurial spirit;
- Investing in properties in select markets, such as New York City and Washington, DC, where we believe there is a high likelihood of capital appreciation;
- Acquiring quality properties at a discount to replacement cost and where there is a significant potential for higher rents;
- Investing in retail properties in select under-stored locations such as the New York City metropolitan area;
- Investing in fully-integrated operating companies that have a significant real estate component;
- Developing and redeveloping our existing properties to increase returns and maximize value; and
- Providing specialty financing to real estate related companies.

We expect to finance our growth, acquisitions and investments using internally generated funds, proceeds from possible asset sales and by accessing the public and private capital markets.

We have a large concentration of properties in the New York City metropolitan area and in the Washington, DC and Northern Virginia areas. We compete with a large number of real estate property owners and developers, some of which may be willing to accept lower returns on their investments. Principal factors of competition are rent charged, attractiveness of location, the quality of the property and breadth and quality of services provided. Our success depends upon, among other factors, trends of the national, regional and local economies, financial condition and operating results of current and prospective tenants and customers, availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation and population trends.

In the second half of 2007 the residential mortgage and capital markets began showing signs of stress, primarily in the form of escalating default rates on sub-prime mortgages, declining home values and increasing inventory nationwide. In 2008, the credit crisis spread to the broader

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

commercial credit and financial markets resulting in illiquidity and extreme volatility in the equity and bond markets. These factors, coupled with a slowing economy, higher unemployment, and lower consumer sentiment, have significantly reduced the volume of real estate transactions and increased capitalization rates. Our existing real estate portfolio may be affected by tenant bankruptcies, store closures, lower occupancy and effective rents, which would result in a corresponding decrease in net income, funds from operations and cash flow. For example, Circuit City has recently announced layoffs, second quarter losses and is considering significant store-closures. Circuit City leases 12 locations in our portfolio aggregating 380,000 square feet (approximately \$8,100,000 of annual property rental income and approximately \$13,000,000 of unamortized costs at September 30, 2008, including tenant improvements, leasing commissions and receivables arising from the straight-lining of rent). In addition, the value of our investments in joint ventures, marketable securities, and mezzanine loans may decline, which may result in impairment charges and/or valuation allowances and a corresponding decrease in net income and funds from operations. It is difficult to predict when or if these markets will return to historical capacity and pricing levels.

Overview continuedQuarter Ended September 30, 2008 Financial Results Summary

Net income applicable to common shares for the quarter ended September 30, 2008 was \$31,430,000, or \$0.20 per diluted share, versus \$116,546,000, or \$0.74 per diluted share, for the quarter ended September 30, 2007. Net income for the quarters ended September 30, 2008 and 2007 include \$1,313,000 and \$31,922,000, respectively, for our share of net gains on sale of real estate. Net income for the quarters ended September 30, 2008 and 2007 also include certain items that affect comparability which are listed in the table below. The aggregate of these items and net gains on sale of real estate, net of minority interest, decreased net income applicable to common shares for the quarter ended September 30, 2008 by \$31,236,000 or \$0.20 per diluted share and increased net income applicable to common shares for the quarter ended September 30, 2007 by \$54,489,000, or \$0.33 per diluted share.

Funds from operations applicable to common shares plus assumed conversions (FFO) for the quarter ended September 30, 2008 was \$173,787,000, or \$1.06 per diluted share, compared to \$221,199,000, or \$1.35 per diluted share, for the prior year's quarter. FFO for the quarters ended September 30, 2008 and 2007 include certain items that affect comparability which are listed in the table below. The aggregate of these items, net of minority interest, decreased FFO for the quarter ended September 30, 2008 by \$33,542,000, or \$0.20 per diluted share and increased FFO for the quarter ended September 30, 2007 by \$28,215,000, or \$0.17 per diluted share.

(Amounts in thousands)	For the Three Months Ended September 30,	
Items that affect comparability (income) expense:	2008	2007
Alexander's stock appreciation rights compensation expense (income)	\$ 14,557	\$ (3,075)
Marketable equity securities' impairment losses	11,808	
Lexington MLP' impairment loss	7,175	
Land held for development' impairment loss	5,000	
Derivative positions in marketable equity securities	3,982	(18,606)
After-tax net gain on sale of residential condominiums	(3,570)	
Other, net	(2,151)	(2,029)
	36,801	(23,710)
47.6% share of Americold's FFO (Net loss of \$1,343 in the three months ended September 30, 2007) sold in March 2008		(5,673)
13.8% share of GMH's FFO (Equity in net income of \$5,708 in the three months ended September 30, 2007) sold in June 2008		(1,685)
	36,801	(31,068)
Minority limited partners' share of above adjustments	(3,259)	2,853)
Total items that affect comparability	\$ 33,542	\$ (28,215)

We did not recognize income during the quarter ended September 30, 2008, on certain assets with an aggregate carrying amount of approximately \$1.5 billion at September 30, 2008, because they were out of service for redevelopment. Assets under development include all or portions of the Bergen Town Center, 2101 L Street, 220 20th Street, 1229-1231 25th Street (West End 25), 1999 K Street, 220 Central Park South, and certain investments in joint ventures including Beverly Connection, Wasserman and 800 17th Street/PNC Place investments.

The percentage increase in the same-store Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) of our operating segments for the quarter ended September 30, 2008 over the quarter ended September 30, 2007 and the trailing quarter ended June 30, 2008 are summarized below.

Quarter Ended:

New York Washington, DC Retail

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

	Office	Office		Merchandise Mart
September 30, 2008 vs. September 30, 2007	5.0%	3.0%	3.0%	(9.5%)
September 30, 2008 vs. June 30, 2008	(1.2%) ⁽¹⁾	(2.4%) ⁽¹⁾	0.7%	(26.1%) ⁽²⁾

-
- (1) Results primarily from seasonal increases in utility costs.
(2) Results primarily from seasonality of operations.

Calculations of same-store EBITDA, reconciliations of net income to EBITDA and FFO and the reasons we consider these non-GAAP financial measures useful are provided in the following pages of Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview continued

Nine Months Ended September 30, 2008 Financial Results Summary

Net income applicable to common shares for the nine months ended September 30, 2008 was \$554,738,000, or \$3.48 per diluted share, versus \$420,806,000 or \$2.65 per diluted share, for the nine months ended September 30, 2007. Net income for the nine months ended September 30, 2008 and 2007 include \$65,918,000 and \$32,415,000, respectively, for our share of net gains on sale of real estate. Net income for the nine months ended September 30, 2008 and 2007 also include certain items that affect comparability which are listed in the table below. The aggregate of these items and net gains on sale of real estate, net of minority interest, increased net income applicable to common shares for the nine months ended September 30, 2008 by \$275,551,000, or \$1.68 per diluted share and increased net income applicable to common shares for the nine months ended September 30, 2007 by \$114,200,000, or \$0.70 per diluted share.

FFO for the nine months ended September 30, 2008 was \$917,258,000, or \$5.60 per diluted share, compared to \$773,457,000, or \$4.71 per diluted share, for the prior year's nine months. FFO for the nine months ended September 30, 2008 and 2007 include certain items that affect comparability which are listed in the table below. The aggregate of these items, net of minority interest, increased FFO for the nine months ended September 30, 2008 by \$222,089,000, or \$1.36 per diluted share and increased FFO for the nine months ended September 30, 2007 by \$102,888,000, or \$0.63 per diluted share.

(Amounts in thousands)	For the Nine Months Ended September 30,	
Items that affect comparability (income) expense:	2008	2007
Reversal of deferred income taxes initially recorded in connection with H Street acquisition	\$ (222,174)	\$
Net gain on sale of our 47.6% interest in Americold	(112,690)	
Write-off of pre-development costs	34,200	
Derivative positions in marketable equity securities	25,812	(100,060)
Marketable equity securities impairment losses	20,881	
Partially owned entities non-cash purchase price accounting adjustments:		
Toys	14,900	
Beverly Connection	(4,100)	
Reversal of MPH mezzanine loan loss accrual	(10,300)	
Alexander's stock appreciation rights compensation expense (income)	7,605	(8,991)
Lexington MLP impairment loss	7,175	
Land held for development impairment loss	5,000	
After-tax net gain on sale of residential condominiums	(3,570)	
Costs of acquisitions not consummated	3,009	8,807
Net gain on disposition of our 13.8% interest in GMH	(2,038)	
Prepayment penalties and write-off of unamortized financing costs		7,562
Other, net	(1,642)	1,969
	(237,932)	(90,713)
47.6% share of Americold's FFO (Net losses of \$1,076 and \$2,848 in each nine-month period, respectively) sold in March 2008	(6,098)	(17,824)
13.8% share of GMH's FFO (Equity in net income of \$5,427 in the nine months ended September 30, 2007) sold in June 2008		(4,718)
	(244,030)	(113,255)
Minority limited partners' share of above adjustments	21,941	10,367
Total items that affect comparability	\$ (222,089)	\$ (102,888)

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

The percentage increase in the same-store EBITDA of our operating segments for the nine months ended September 30, 2008 over the nine months ended September 30, 2007 is summarized below.

	New York	Washington, DC		Merchandise
	Office	Office	Retail	Mart
September 30, 2008 vs. September 30, 2007	6.1%	4.6%	3.8%	1.3%

Overview continued

Reversal of Deferred Tax Liabilities

In connection with the 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.

Marketable Securities

At March 31, 2008, we concluded that an investment in a marketable equity security was other-than-temporarily impaired and recognized a non-cash impairment charge \$9,073,000, based on the March 31, 2008 closing share price of that security. At September 30, 2008, we concluded that certain other investments in marketable equity securities were other-than-temporarily impaired based on the severity of the declines in the market value (fair value pursuant to SFAS 157) of those securities at September 30, 2008 and, accordingly, we recognized a non-cash impairment charge of \$11,808,000. These non-cash charges are included in interest and other investment income on our consolidated statement of income. Based on the October 31, 2008 closing share prices of these securities, their market value is approximately \$39,100,000 below their carrying amount.

The Lexington Master Limited Partnership (Lexington MLP)

At September 30, 2008, we owned 8,149,594 limited partnership units of Lexington MLP which are exchangeable on a one-for-one basis into common shares of Lexington Realty Trust (Lexington) (NYSE: LXP) or a 7.7% limited partnership interest. We account for our investment on the equity method. We record our pro rata share of Lexington MLP'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 September 30, 2008 closing share price of \$17.22, the market value (fair value pursuant to SFAS 157) of our investment in Lexington MLP was \$140,336,000, or \$7,175,000 below the carrying amount on our consolidated balance sheet. We have concluded that our investment is other-than-temporarily impaired and recorded a \$7,175,000 non-cash impairment loss on our consolidated statement of income. Our conclusion was based on the recent deterioration in the capital and financial markets and our inability to forecast a recovery in the near-term.

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 of Lexington MLP for 8,149,592 common shares of Lexington. We now own 16,149,592 Lexington common shares, or approximately 17.6% of Lexington's common equity, with a carrying amount of \$185,136,000, or \$11.46 per share.

Subsequent to September 30, 2008, the market value of Lexington's common shares declined substantially, as did share prices of many public companies. Based on Lexington's October 31, 2008 closing share price of \$8.03, the market value of our investment is approximately \$55,500,000 below its carrying amount.

Other Non-Cash Charges

During the quarter ended March 31, 2008, we recognized a non-cash charge of \$34,200,000 for the write-off for our share of two joint ventures pre-development costs, of which \$23,000,000 represented our 50% share of costs in connection with the abandonment of the arena move /Moynihan East portions of the Farley project. During the quarter ended September 30, 2008, we recognized a non-cash charge of \$5,000,000 to write-down the carrying amount of land held for development to its fair value.

Overview continued

2008 Dispositions

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.

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

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), in June 2008 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 was recognized in the second quarter of 2008, and 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.

2008 Financings

On January 18, 2008, we closed a construction loan providing up to \$87,000,000 to finance the residential redevelopment project at 220 20th Street (formally Crystal Plaza Two). The construction loan bears interest at LIBOR plus 1.15% (4.34% at September 30, 2008) and matures in January 2011 with two six-month extension options. As of September 30, 2008, \$27,291,000 was drawn under this loan.

On February 11, 2008, we completed a \$335,000,000 refinancing of the Green Acres regional mall. This interest-only loan has a rate of LIBOR plus 1.40% (3.89% at September 30, 2008) and matures in February 2011, with two one-year extension options. We retained net proceeds of \$193,000,000 after repaying the existing loan.

On February 20, 2008, we closed a construction loan providing up to \$104,000,000 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% (3.79% at September 30, 2008) and matures in February 2011 with two six-month extension options. As of September 30, 2008, \$15,583,000 was drawn under this loan.

On February 26, 2008, we completed a \$150,000,000 financing of our 2101 L Street property located in Washington, DC. The loan bears interest at LIBOR plus 1.20% (4.91% at September 30, 2008) and matures in February 2011 with two one-year extension options. We retained net proceeds of \$148,000,000.

On March 12, 2008 we completed a \$260,000,000 refinancing of the River House Apartment Complex. The financing is comprised of a \$196,000,000 interest-only seven year 5.43% fixed rate mortgage and a \$64,000,000 interest-only ten year floating rate mortgage at the Freddie Mac Reference Note Rate plus 1.53% (3.81% at September 30, 2008). We retained net proceeds of \$205,000,000 after repaying the existing loan.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

On March 24, 2008, we closed a construction loan providing up to \$290,000,000 to finance the redevelopment of a portion of the Bergen Town Center. The interest-only loan has a rate of LIBOR plus 1.50% (3.94% at September 30, 2008) and matures in March 2011 with two one-year extension options. As of September 30, 2008, \$214,279,000 was drawn under this loan.

On March 27, 2008, we closed a construction loan providing up to \$124,000,000 to finance the redevelopment of 1999 K Street. The interest-only loan has a rate of LIBOR plus 1.30% (5.01% at September 30, 2008) and matures in December 2010 with two six-month extension options. As of September 30, 2008, \$59,230,000 was drawn under this loan.

On September 9, 2008, we purchased \$50,000,000 of our senior unsecured notes due August 15, 2009 for \$49,746,000.

Overview - continuedLeasing Activity

The following table sets forth certain information for the properties we own directly or indirectly, including leasing activity. The leasing activity presented below is based on leases signed during the period and is not intended to coincide with the commencement of rental revenue recognition in accordance with accounting principles generally accepted in the United States of America (GAAP). Tenant improvements and leasing commissions are presented below based on square feet leased during the period, on a per square foot and per square foot per annum basis based on weighted average lease terms and as a percentage of initial rent per square foot.

(Square feet in thousands)

	New York Office	Washington, DC Office	Retail	Merchandise Mart Office	Showroom
As of September 30, 2008:					
Square feet (in service)	16,093	17,649	21,837	2,408	6,348
Number of properties	28	85	176	8	8
Occupancy rate	97.1%	95.7%	94.1%	96.5%	92.3%
Leasing Activity:					
Quarter Ended September 30, 2008:					
Square feet	234	582	221	65	193
Initial rent per square foot (1)	\$ 73.55	\$ 38.97	\$ 34.80	\$ 25.68	\$ 26.79
Weighted average lease terms (years)	9.7	7.8	7.4	9.1	5.6
Rent per square foot relet space:					
Square feet	223	169	111	65	192
Initial Rent (1)	\$ 74.66	\$ 37.31	\$ 37.26	\$ 25.68	\$ 26.79
Prior escalated rent	\$ 45.61	\$ 34.62	\$ 32.98	\$ 27.94	\$ 27.74
Percentage increase (decrease):					
Cash basis	63.7%	7.8%	13.0%	(8.1%)	(3.4%)
GAAP basis	74.3%	11.8%	20.7%	9.5%	10.1%
Rent per square foot vacant space:					
Square feet	11	413	110		1
Initial rent (1)	\$ 50.20	\$ 39.65	\$ 32.35	\$	\$ 27.00
Tenant improvements and leasing commissions:					
Per square foot	\$ 39.84	\$ 9.31	\$ 11.20	\$ 57.43	\$ 8.08
Per square foot per annum	\$ 4.11	\$ 1.19	\$ 1.52	\$ 6.31	\$ 1.44
Percentage of initial rent	5.6%	3.1%	4.4%	24.6%	5.4%
Nine Months Ended September 30, 2008:					
Square feet	1,014	1,856	801	223	656
Initial rent per square foot (1)	\$ 71.99	\$ 38.43	\$ 31.84	\$ 24.43	\$ 28.67
Weighted average lease terms (years)	9.2	7.6	7.6	9.3	5.5
Rent per square foot relet space:					
Square feet	941	1,088	466	157	633
Initial Rent (1)	\$ 73.77	\$ 35.43	\$ 31.44	\$ 24.54	\$ 28.43
Prior escalated rent	\$ 48.70	\$ 29.99	\$ 27.17	\$ 26.94	\$ 28.85
Percentage increase (decrease):					
Cash basis	51.5%	18.1%	15.7%	(8.9%)	(1.5%)
GAAP basis	56.4%	19.5%	23.5%	5.6%	11.3%
Rent per square foot vacant space:					
Square feet	73	768	335	66	23
Initial rent (1)	\$ 49.00	\$ 42.67	\$ 32.39	\$ 24.17	\$ 35.52
Tenant improvements and leasing commissions:					
Per square foot	\$ 46.81	\$ 16.27	\$ 9.95	\$ 52.00	\$ 8.55
Per square foot per annum	\$ 5.09	\$ 2.14	\$ 1.31	\$ 5.59	\$ 1.55

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Percentage of initial rent	7.1%	5.6%	4.1%	22.9%	5.4%
----------------------------	------	------	------	-------	------

See notes on the following page.

40

Overview (continued)

(Square feet and cubic feet in thousands)

	New York Office		Washington, DC Office		Retail		Merchandise Mart Office		Showroom	
As of June 30, 2008:										
Square feet	16,074		17,553		21,928		2,390		6,360	
Number of properties	28		85		177		8		8	
Occupancy rate	97.5	%	93.9	%	94.5	%	96.7	%	93.4	%
As of December 31, 2007:										
Square feet	15,994		17,931		21,934		2,390		6,139	
Number of properties	28		84		177		8		8	
Occupancy rate	97.6	%	93.3	%	94.3	%	96.8	%	93.7	%
As of September 30, 2007:										
Square feet	15,979		17,587		21,071		2,763		6,320	
Number of properties	28		83		173		9		9	
Occupancy rate	97.7	%	93.5	%	93.9	%	95.5	%	91.6	%

(1) Most leases include periodic step-ups in rent which are not reflected in the initial rent per square foot leased.

Overview - 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 GAAP 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 consist of (i) marketable securities, (ii) derivative positions in marketable securities and (iii) 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 sheet. Financial assets and liabilities measured at fair value as of September 30, 2008 are presented in the table below based on their level in the fair value hierarchy.

(Amounts in thousands)	Total	Fair Value Hierarchy		
		Level 1	Level 2	Level 3
Marketable securities	\$ 146,469	\$ 146,469	\$	\$
Deferred compensation plan assets	80,302	40,646		39,656 (2)
Interest rate caps	40		40	
Total Assets, measured at fair value (1)	\$ 226,811	\$ 187,115	\$ 40	\$ 39,656
Derivative positions in marketable equity securities	\$ 8,978		\$ 8,978	\$
Deferred compensation plan liabilities	80,302	40,646		39,656 (2)
Total Liabilities, measured at fair value (1)	\$ 89,280	\$ 40,646	\$ 8,978	\$ 39,656

(1) We chose not to elect the fair value option prescribed by Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* (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.

(2) 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 three and nine months ended September 30, 2008.

(Amounts in thousands)	Beginning Balance	Total Realized and Unrealized Gains or (Losses)	Purchases, Sales, Other Settlements and Issuances, net	Ending Balance
For the three months ended September 30, 2008	\$ 41,028	\$ (1,688)	) \$ 316	\$ 39,656
For the nine months ended September 30, 2008	\$ 50,578	\$ (10,115)	) \$ (807)	) \$ 39,656

Overview - continued

Recently Issued Accounting Literature - continued

In September 2006, the FASB issued Statement No. 158, *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans, an Amendment of SFAS No. 87, 88, 106 and 132R* (SFAS 158). SFAS 158 requires an employer to (i) recognize in its statement of financial position an asset for a plan's over-funded status or a liability for a plan's under-funded status; (ii) measure a plan's assets and its obligations that determine its funded status as of the end of the employer's fiscal year (with limited exceptions); and (iii) recognize changes in the funded status of a defined benefit postretirement plan in the year in which the changes occur. Those changes will be reported in comprehensive income. The adoption of the requirement to recognize the funded status of a benefit plan and the disclosure requirements as of December 31, 2006 did not have a material effect on our consolidated financial statements. The requirement to measure plan assets and benefit obligations to determine the funded status as of the end of the fiscal year and to recognize changes in the funded status in the year in which the changes occur is effective on January 1, 2009. The adoption of the measurement date provisions of this standard is not expected to have a material effect on our consolidated financial statements.

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 our future financial results to the extent that we acquire significant amounts of real estate, as related 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. SFAS 160 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 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 FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, 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.

Overview - continued

Recently Issued Accounting Literature 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). 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 FSP is effective for our fiscal year beginning on January 1, 2009 and requires retroactive application. The adoption of the FSP on January 1, 2009 will result in the recognition of an aggregate unamortized debt discount of \$151,422,000 (as of September 30, 2008) on our consolidated balance sheet and additional interest expense on 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	35,065
2009	37,808
2010	40,066
2011	41,065
2012	8,188

In May 2008, the FASB issued Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles* (SFAS 162). The purpose of this statement is to improve financial reporting by providing a consistent framework for determining applicable accounting principles to be used in the preparation of financial statements presented in conformity with GAAP. SFAS 162 will become effective 60 days after the SEC 's approval. We believe that the adoption of this standard on its effective date will not have a material effect on our consolidated financial statements.

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 any effect on our consolidated financial statements.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Net Income and EBITDA by Segment for the Three Months Ended September 30, 2008 and 2007

Below is a summary of net income and a reconciliation of net income to EBITDA⁽¹⁾ by segment for the three months ended September 30, 2008 and 2007.

(Amounts in thousands)

For the Three Months Ended September 30, 2008

	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other ⁽²⁾
Property rentals	\$501,475	\$ 181,758	\$ 128,382	\$ 86,590	\$ 53,167	\$	\$ 51,578
Straight-line rents:							
Contractual rent increases	14,404	8,077	418	3,805	1,738		366
Amortization of free rent	8,070	3,649	2,925	1,539	(2)		(41)
Amortization of acquired below-market leases, net	24,526	14,807	1,089	7,491	26		1,113
Total rentals	548,475	208,291	132,814	99,425	54,929		53,016
Tenant expense reimbursements	97,912	40,632	14,601	33,383	5,294		4,002
Fee and other income:							
Tenant cleaning revenue	13,627	17,751					(4,124)
Management and leasing fees	2,518	1,138	1,875	411	95		(1,001)
Lease termination fees	1,455	21	1,037	362	35		
Other	13,158	3,626	5,701	1,876	2,676		(721)
Total revenues	677,145	271,459	156,028	135,457	63,029		51,172
Operating expenses	276,302	120,398	56,680	50,248	31,773		17,203
Depreciation and amortization	136,705	48,322	35,929	21,904	12,751		17,799
General and administrative	49,495	5,263	6,427	7,398	7,419		22,988
Costs of acquisitions and development not consummated	5,000						5,000
Total expenses	467,502	173,983	99,036	79,550	51,943		62,990
Operating income (loss)	209,643	97,476	56,992	55,907	11,086		(11,818)
(Loss) income applicable to Alexander's	(6,876)	189		191			(7,256)
Loss applicable to Toys	(8,141)					(8,141)	
(Loss) income from partially owned entities	(3,099)	3,429	1,696	25	158		(8,407)
Interest and other investment income, net	9,638	542	507	92	49		8,448
Interest and debt expense	(148,039)	(34,647)	(31,323)	(21,445)	(13,150)		(47,474)
Net gains (losses) on disposition of wholly owned and partially owned assets other than depreciable real estate	5,160						5,160
Minority interest of partially owned entities	466	(1,545)		30			1,981
Income (loss) before income taxes	58,752	65,444	27,872	34,800	(1,857)	(8,141)	(59,366)
Income tax expense	(5,244)		(699)	(5)	(814)		(3,726)
Income (loss) from continuing operations	53,508	65,444	27,173	34,795	(2,671)	(8,141)	(63,092)
Income (loss) from discontinued operations, net	102			112			(10)
Income (loss) before allocation to minority limited partners	53,610	65,444	27,173	34,907	(2,671)	(8,141)	(63,102)
Minority limited partners' interest in the Operating Partnership	(3,091)						(3,091)
Perpetual preferred unit distributions of the Operating Partnership	(4,818)						(4,818)
Net income (loss)	45,701	65,444	27,173	34,907	(2,671)	(8,141)	(71,011)
Interest and debt expense ⁽¹⁾	192,839	32,979	32,244	26,733	13,360	33,569	53,954
Depreciation and amortization ⁽¹⁾	179,574	46,113	37,222	23,488	12,885	35,155	24,711
Income tax expense (benefit) ⁽¹⁾	(5,063)		701	5	814	(10,944)	4,361
EBITDA ⁽¹⁾	\$413,051	\$ 144,536	\$ 97,340	\$ 85,133	\$ 24,388	\$ 49,639	\$ 12,015

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

The Other segment EBITDA includes \$23,983 for non-cash impairment charges (primarily marketable securities and our investment Lexington MLP), a \$3,982 net loss on the mark-to-market of derivative instruments and a \$3,570 after-tax net gain on sale of residential condominiums at our 40 East 66th Street property.

See notes on page 47.

45

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Net Income and EBITDA by Segment for the Three Months Ended September 30, 2008 and 2007 continued

(Amounts in thousands)

	For the Three Months Ended September 30, 2007						
	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other ⁽²⁾
Property rentals	\$ 478,951	\$ 173,180	\$ 120,540	\$ 83,184	\$ 53,922	\$	\$ 48,125
Straight-line rents:							
Contractual rent increases	10,533	3,124	3,333	2,986	1,034		56
Amortization of free rent	5,797	1,562	3,346	44	98		747
Amortization of acquired below-							
market leases, net	24,499	15,216	1,066	6,272	10		1,935
Total rentals	519,780	193,082	128,285	92,486	55,064		50,863
Tenant expense reimbursements	89,293	35,701	12,065	30,338	6,632		4,557
Fee and other income:							
Tenant cleaning revenue	13,028	15,672					(2,644)
Management and leasing fees	2,891	1,494	2,178	310	8		(1,099)
Lease termination fees	1,574	1,326	(1)	51	198		
Other	10,512	4,058	4,317	515	1,769		(147)
Total revenues	637,078	251,333	146,844	123,700	63,671		51,530
Operating expenses	259,000	106,616	50,825	43,656	33,791		24,112
Depreciation and amortization	118,994	41,346	30,521	19,634	12,110		15,383
General and administrative	47,888	5,330	6,247	6,739	7,439		22,133
Total expenses	425,882	153,292	87,593	70,029	53,340		61,628
Operating income (loss)	211,196	98,041	59,251	53,671	10,331		(10,098)
Income applicable to Alexander's	12,111	189		187			11,735
Loss applicable to Toys	(20,289)						(20,289)
Income from partially owned entities	13,561	2,745	743	3,972	(50)		6,151
Interest and other investment income, net	56,581	668	3,558	195	104		52,056
Interest and debt expense	(149,722)	(36,186)	(31,289)	(19,423)	(13,174)		(49,650)
Net gains (losses) on disposition of wholly owned and partially owned assets other than depreciable real estate	1,012						1,012
Minority interest of partially owned entities	(282)	(1,613)		54			1,277
Income (loss) before income taxes	124,168	63,844	32,263	38,656	(2,789)	(20,289)	12,483
Income tax expense	(2,806)		(2,349)	(3)	(153)		(301)
Income (loss) from continuing operations	121,362	63,844	29,914	38,653	(2,942)	(20,289)	12,182
Income (loss) from discontinued operations, net	24,538		25,550	3,078			(4,090)
Income (loss) before allocation to minority limited partners	145,900	63,844	55,464	41,731	(2,942)	(20,289)	8,092
Minority limited partners interest in the Operating Partnership	(10,241)						(10,241)
Perpetual preferred unit distributions of the Operating Partnership	(4,818)						(4,818)
Net income (loss)	130,841	63,844	55,464	41,731	(2,942)	(20,289)	(6,967)
Interest and debt expense ⁽¹⁾	207,934	34,853	31,999	21,947	13,388	40,875	64,872
Depreciation and amortization ⁽¹⁾	171,106	39,543	33,474	20,617	12,260	34,495	30,717
Income tax (benefit) expense ⁽¹⁾	(13,094)	952	2,353	3	153	(18,213)	1,658
EBITDA ⁽¹⁾	\$ 496,787	\$ 139,192	\$ 123,290	\$ 84,298	\$ 22,859	\$ 36,868	\$ 90,280

The Washington, DC Office segment EBITDA and the Retail segment EBITDA includes \$24,696 and \$3,049, respectively, of net gains on sale of real estate (included in Income (loss) from discontinued operations, net). The Other segment EBITDA includes an \$18,606 net gain on the mark-to-market of derivative instruments and a \$1,012 net gain on sale of marketable equity.

See notes on following page.

46

Net Income and EBITDA by Segment for the Three Months Ended September 30, 2008 and 2007 - continued

Notes to preceding tabular information:

(1) EBITDA represents Earnings Before Interest, Taxes, Depreciation and Amortization. We consider EBITDA a supplemental measure for making decisions and assessing the un-levered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on a multiple of EBITDA, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.

(2) Other EBITDA is comprised of:

(Amounts in thousands)	For the Three Months	
	Ended September 30, 2008	2007
555 California Street	\$ 12,295	\$ 12,164
Hotel Pennsylvania	11,907	9,973
Lexington MLP	10,803	9,022
Industrial warehouses	1,361	1,399
Alexander s	68	19,012
GMH (sold in June 2008)		9,527
Other investments	6,427	1,964
	42,861	63,061
Corporate general and administrative expenses	(19,633)	(20,518)
Impairment loss- Lexington MLP	(7,175))
Cost of acquisitions and development not consummated	(5,000))
Investment income and other	8,871	46,551
Perpetual preferred unit distributions of the Operating Partnership	(4,818)	(4,818)
Minority limited partners interest in the Operating Partnership	(3,091)	(10,241)
Discontinued operations of Americold, net (sold in March 2008)		16,245
	\$ 12,015	\$ 90,280

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Three Months Ended September 30, 2008 Compared to September 30, 2007

Revenues

Our revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of acquired below market leases, net of above market leases and fee income, were \$677,145,000 in the quarter ended September 30, 2008, compared to \$637,078,000 in the prior year's quarter, an increase of \$40,067,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
Property rentals:						
Increase (decrease) due to:						
Acquisitions	\$ 2,599	\$	\$ (319)	\$ 2,898	\$ 20	\$
Development/Redevelopment	(897)		(452)	(335)		(110)
Amortization of acquired below market leases, net	27	(409)	23	1,219	16	(822)
Operations:						
Hotel Pennsylvania	3,318					3,318 ⁽¹⁾
Trade shows	(474)				(474)	
Leasing activity (see page 40)	24,122	15,618	5,277	3,157	303	(233)
Total increase (decrease) in property rentals	28,695	15,209	4,529	6,939	(135)	2,153
Tenant expense reimbursements:						
Increase (decrease) due to:						
Acquisitions/development	858		(121)	979		
Operations	7,761	4,931	2,657	2,066	(1,338)	(555) ⁽²⁾
Total increase (decrease) in tenant expense reimbursements	8,619	4,931	2,536	3,045	(1,338)	(555)
Fee and other income:						
Increase (decrease) in:						
Lease cancellation fee income	(119)	(1,305)	1,038	311	(163)	
Management and leasing fees	(373)	(356)	(303)	101	87	98
BMS Cleaning revenue	599	2,079				(1,480) ⁽³⁾
Other	2,646	(432)	1,384	1,361	907	(574)
Total increase (decrease) in fee and other income	2,753	(14)	2,119	1,773	831	(1,956)
Total increase (decrease) in revenues	\$ 40,067	\$ 20,126	\$ 9,184	\$ 11,757	\$ (642)	\$ (358)

(1) Revenue per available room (REVPAR) was \$159.20 for the three months ended September 30, 2008, compared to \$136.85 for the prior year's quarter.

(2) Primarily from reimbursements recorded in the prior year's quarter resulting from a reassessment of 2006 real estate taxes in 2007.

(3) Primarily from an increase in the elimination of inter-company fees of our operating segment upon consolidation.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Three Months Ended September 30, 2008 Compared to September 30, 2007 (continued)

Expenses

Our expenses, which consist of operating, depreciation and amortization and general and administrative expenses, were \$467,502,000 in the quarter ended September 30, 2008, compared to \$425,882,000 in the prior year's quarter, an increase of \$41,620,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

Operating:	Total	New		Retail	Merchandise		Other
		York Office	Washington, DC Office		Mart		
Increase (decrease) due to:							
Acquisitions	\$,369	\$	\$ 195	\$ 1,013	\$ 161		\$
Development/Redevelopment	174		28	455			(309)
Hotel activity	1,166						1,166
Trade shows activity	(1,012)				(1,012)	⁽¹⁾	
Operations	15,605	13,782 ⁽²⁾	5,632	5,124	(1,167)	⁽³⁾	(7,766) ⁽⁴⁾
Total increase (decrease) in operating expenses	17,302	13,782	5,855	6,592	(2,018)		(6,909)
Depreciation and amortization:							
Increase (decrease) due to:							
Acquisitions/Development	1,324		495	1,524			(695)
Operations (due to additions to buildings and improvements)	16,387	6,976	4,913	746	641		3,111
Total increase in depreciation and amortization	17,711	6,976	5,408	2,270	641		2,416
General and administrative:							
Increase (decrease) due to:							
Acquisitions/Development and other	989			289			700
Operations	618	(67)	180	370	(20)		155
Total increase (decrease) in general and administrative	1,607	(67)	180	659	(20)		855
Cost of acquisitions and development not consummated	5,000						5,000
Total increase (decrease) in expenses	\$1,620	\$20,691	\$ 11,443	\$ 9,521	\$ (1,397)		\$1,362

(1) Primarily due to a trade show in the prior year's quarter that did not reoccur this year.

(2) Results from a \$2,319 increase in BMS operating expenses and an \$11,463 increase in property level operating expenses.

(3) Primarily from the reassessment of 2006 real estate taxes in 2007.

(4) Primarily from an increase in the elimination of inter-company fees of our operating segments upon consolidation.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Three Months Ended September 30, 2008 Compared to September 30, 2007 (continued)

Income Applicable to Alexander's

Our 32.6% share of Alexander's net loss (comprised of equity in net loss or income, management, leasing, and development fees) was \$6,876,000 in the quarter ended September 30, 2008, compared to net income of \$12,111,000 in the prior year's quarter, a decrease of \$18,987,000. This decrease was primarily due to \$14,557,000 for our share of stock appreciation rights compensation expense in the current quarter, compared to \$3,075,000 of income for our share of the reversal of accrued stock appreciation rights compensation expense in the prior year's quarter.

Loss Applicable to Toys

Our 32.7% share of Toys' net loss (comprised of equity in net loss, interest income on loans receivable, and management fees) was \$8,141,000 in the quarter ended September 30, 2008, or \$19,085,000 before our share of Toys' income tax benefit, compared to a net loss of \$20,289,000, or \$37,855,000 before our share of Toys' income tax benefit in the prior year's quarter. Historically, Toys' fourth quarter net income, which we recorded on a lag basis in our first quarter, accounts for more than 80% of Toys' fiscal year net income.

Income from Partially Owned Entities

Summarized below are the components of income from partially owned entities for the quarter ended September 30, 2008 and 2007.

(Amounts in thousands)	For The Three Months Ended September 30,	
Equity in Net Income:	2008	2007
Beverly Connection:		
50% share of equity in net loss (1)	\$ (4,585)	\$ (1,287)
Interest and fee income	3,686	3,885
	(899)	2,598
Lexington MLP 7.7% share of equity in net income(2)	(6,040)	1,726
India real estate ventures 4% to 50% share of equity in net losses	(835)	
GMH Communities L.P. 13.8% share of equity in net income in 2007(3)		5,709
Other (4)	4,675	3,528
	\$ (3,099)	\$ 13,561

(1) 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 relates to our partner's pro rata share of the venture's net loss.

(2) The three months ended September 30, 2008 includes a \$7,175 non-cash impairment charge.

(3) 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), in June 2008 we received an aggregate of \$105,180, consisting of \$82,142 in cash and 753,126 shares of ACC

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

common stock valued at \$23,038 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, which was recognized in the second quarter of 2008, and 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.

- (4) 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.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Three Months Ended September 30, 2008 Compared to September 30, 2007 (continued)

Interest and Other Investment Income, net

Interest and other investment income, net (mark-to-market of derivative positions, interest income on mortgage loans receivable, other interest income and dividend income) was \$9,638,000 in the quarter ended September 30, 2008, compared to \$56,581,000 in the prior year's quarter, a decrease of \$46,943,000. This decrease resulted primarily from:

(Amounts in thousands)

Derivative positions in marketable equity securities net loss of \$3,982 this quarter compared to a net gain of \$18,606 in the prior year's quarter	\$ (22,588)
Marketable equity securities impairment losses	(11,808)
Decrease in interest income on mezzanine loans as a result of lower average investments (\$468,469 this quarter compared to \$652,489 in the prior year's quarter)	(7,395)
Other, net	(5,152)
	\$ (46,943)

Interest and Debt Expense

Interest and debt expense was \$148,039,000 in the quarter ended September 30, 2008, compared to \$149,722,000 in the prior year's quarter, a decrease of \$1,683,000. The prior year's quarter included \$1,701,000 of expense from the early extinguishment of debt. The decrease in interest expense from lower weighted average rates this quarter was offset by higher average outstanding debt.

Net Gains (Losses) on Disposition of Wholly Owned and Partially Owned Assets Other than Depreciable Real Estate

Net gains on disposition of wholly owned and partially owned assets other than depreciable real estate was \$5,160,000 in the quarter ended September 30, 2008, compared to \$1,012,000 in the quarter ended September 30, 2007. The quarter ended September 30, 2008 includes a \$4,427,000 pre-tax gain on sale of residential condominiums at our 40 East 66th Street property and \$733,000 of net gains on sale of marketable securities. The \$1,012,000 net gain in the quarter ended September 30, 2007 represents net gains on sale of marketable securities.

Minority Interest of Partially Owned Entities

Minority interest of partially owned entities was income of \$466,000 in the quarter ended September 30, 2008, compared to expense of \$282,000 in the prior year's quarter and represents the minority partners' pro rata share of the net loss of consolidated partially owned entities, including 1290 Avenue of the Americas, 555 California Street, 220 Central Park South, Wasserman and the Springfield Mall.

Income Tax Expense

Income tax expense was \$5,244,000 in the quarter ended September 30, 2008, compared to \$2,806,000 in the prior year's quarter, an increase of \$2,438,000. This increase was primarily due to the acquisition of 555 California Street and income taxes on the sale of residential condominiums at our 40 East 66th Street property.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Three Months Ended September 30, 2008 Compared to September 30, 2007 (continued)

Discontinued Operations

The combined results of discontinued operations for the quarter ended September 30, 2008 and 2007 include the operating results of Tysons Dulles Plaza, which was sold on June 10, 2008; Americold, which was sold on March 31, 2008; 19.6 acres of land we acquired as part of our acquisition of H Street, of which 11 acres were sold in September 2007; Vineland, New Jersey, which was sold on July 16, 2007; Crystal Mall Two, which was sold on August 9, 2007; and Arlington Plaza, which was sold on October 17, 2007.

(Amounts in thousands)	For the Three Months Ended September 30,	
	2008	2007
Total revenues	\$	\$216,957
Total expenses	10	220,164
Net loss	(10	) (3,207)
Net gains on sale of real estate	112	27,745
Income from discontinued operations, net of minority interest	\$102	\$24,538

Minority Limited Partners Interest in the Operating Partnership

Minority limited partners interest in the Operating Partnership was \$3,091,000 in the quarter ended September 30, 2008, compared to \$10,241,000 in the prior year's quarter, a decrease of \$7,150,000. This decrease results primarily from lower net income subject to allocation to the minority limited partners.

Perpetual Preferred Unit Distributions of the Operating Partnership

Perpetual preferred unit distributions of the Operating Partnership were \$4,818,000 in the quarters ended September 30, 2008 and 2007.

Preferred Share Dividends

Preferred share dividends were \$14,271,000 in the quarter ended September 30, 2008, compared to \$14,295,000 in the prior year's quarter.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Three Months Ended September 30, 2008 Compared to September 30, 2007 (continued)

EBITDA by Segment

Below are the details of the changes in EBITDA by segment for the three months ended September 30, 2008 from the three months ended September 30, 2007.

(Amounts in thousands)	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other
Three Months ended September 30, 2007	\$ 496,787	\$ 139,192	\$ 123,290	\$ 84,298	\$ 22,859	\$ 36,868	\$ 90,280
2008 Operations:							
Same store operations ⁽¹⁾		7,126	3,026	2,240	(3,323)		
Acquisitions, dispositions and non-same store income and expenses		(1,782)	(28,976)	(1,405)	4,852		
Three Months ended September 30, 2008	\$ 413,051	\$ 144,536	\$ 97,340	\$ 85,133	\$ 24,388	\$ 49,639	\$ 12,015
% increase (decrease) in same store operations		5.0%	3.0%	3.0%	(9.5%)	N/A	

-
- (1) Represents the increase in property-level operations which were owned for the same period in each year and excludes the effect of property acquisitions, dispositions and other non-operating items that affect comparability, including divisional general and administrative expenses. We utilize this measure to make decisions on whether to buy or sell properties as well as to compare the performance of our properties to that of our peers. Same store operations may not be comparable to similarly titled measures employed by other companies.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2008 and 2007

Below is a summary of net income and a reconciliation of net income to EBITDA⁽¹⁾ by segment for the nine months ended September 30, 2008 and 2007.

(Amounts in thousands)

	For the Nine Months Ended September 30, 2008						
	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other ⁽²⁾
Property rentals	\$1,503,925	\$ 539,254	\$ 377,867	\$ 260,279	\$ 179,606	\$	\$ 146,919
Straight-line rents:							
Contractual rent increases	45,724	20,860	6,861	12,867	4,531		605
Amortization of free rent	17,460	8,106	5,759	319	2,662		614
Amortization of acquired below-market leases, net	73,655	45,548	3,305	20,016	84		4,702
Total rentals	1,640,764	613,768	393,792	293,481	186,883		152,840
Tenant expense reimbursements	269,970	103,230	44,649	98,251	14,715		9,125
Fee and other income:							
Tenant cleaning revenue	41,431	53,415					(11,984)
Management and leasing fees	10,326	5,035	6,983	974	306		(2,972)
Lease termination fees	4,469	2,050	1,037	1,027	355		
Other	33,832	11,876	14,802	2,016	5,749		(611)
Total revenues	2,000,792	789,374	461,263	395,749	208,008		146,398
Operating expenses	793,911	333,845	161,220	144,648	102,747		51,451
Depreciation and amortization	398,263	143,549	104,899	63,596	38,324		47,895
General and administrative	149,165	14,906	18,824	23,105	21,921		70,409
Costs of acquisitions and development not consummated	8,009						8,009
Total expenses	1,349,348	492,300	284,943	231,349	162,992		177,764
Operating income (loss)	651,444	297,074	176,320	164,400	45,016		(31,366)
Income applicable to Alexander's	16,404	568		529			15,307
Income applicable to Toys	41,510					41,510	
(Loss) income from partially owned entities	(29,167)	8,566	4,548	9,889	978		(53,148)
Interest and other investment income, net	47,535	1,965	1,737	422	221		43,190
Interest and debt expense	(446,534)	(104,032)	(94,085)	(63,981)	(39,190)		(145,246)
Net gains (losses) on disposition of wholly owned and partially owned assets other than depreciable real estate	8,546						8,546
Minority interest of partially owned entities	2,709	(3,366)		104			5,971
Income (loss) before income taxes	292,447	200,775	88,520	111,363	7,025	41,510	(156,746)
Income tax benefit (expense)	207,170		220,916	(7)	(1,205)		(12,534)
Income (loss) from continuing operations	499,617	200,775	309,436	111,356	5,820	41,510	(169,280)
Income (loss) from discontinued operations, net	154,442		59,068	(448)			95,822
Income (loss) before allocation to minority limited partners	654,059	200,775	368,504	110,908	5,820	41,510	(73,458)
Minority limited partners' interest in the Operating Partnership	(42,046)						(42,046)
Perpetual preferred unit distributions of the Operating Partnership	(14,455)						(14,455)
Net income (loss)	597,558	200,775	368,504	110,908	5,820	41,510	(129,959)
Interest and debt expense ⁽¹⁾	593,039	98,810	96,958	76,492	39,823	108,970	171,986
Depreciation and amortization ⁽¹⁾	531,252	136,738	110,334	67,456	38,711	103,291	74,722
Income tax (benefit) expense ⁽¹⁾	(121,844)		(220,911)	7)	1,205	82,778	15,077
EBITDA ⁽¹⁾	\$1,600,005	\$ 436,323	\$ 354,885	\$ 254,863	\$ 85,559	\$ 336,549	\$ 131,826

The Washington, DC Office segment EBITDA includes a \$222,174 reduction in income tax expense resulting from a reversal of deferred tax liabilities in connection with the acquisition of H Street, and a \$56,831 net gain on sale of real estate (included in Income (loss) from discontinued operations, net). The Other segment EBITDA includes, a \$112,690 net gain on sale of our 47.6% interest in Americold (included in Income (loss) from discontinued operations, net), a \$34,200 write-off of pre-development costs, a \$25,812 net loss on the mark-to-market of derivative instruments, \$28,056 of other non-cash charges, a \$3,570 after-tax net gain on sale of residential condominiums at our 40 East 66th

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Street property, an \$8,009 write-off for costs of acquisitions and development not consummated and a \$2,038 net gain on disposition of our 13.8% interest in GMH.

See notes on page 56.

54

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2008 and 2007 continued

(Amounts in thousands)

	For the Nine Months Ended September 30, 2007						
	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other ⁽²⁾
Property rentals	\$ 1,315,862	\$ 463,678	\$ 336,304	\$ 240,975	\$ 172,431	\$	\$ 102,474
Straight-line rents:							
Contractual rent increases	28,571	11,003	6,074	8,794	2,317		383
Amortization of free rent	29,244	14,747	11,939	555	1,044		959
Amortization of acquired below-							
market leases, net	58,842	32,895	3,210	19,119	130		3,488
Total rentals	1,432,519	522,323	357,527	269,443	175,922		107,304
Tenant expense reimbursements	238,983	94,051	32,659	87,922	16,339		8,012
Fee and other income:							
Tenant cleaning revenue	33,398	40,820					(7,422)
Management and leasing fees	12,894	3,323	10,711	1,234	11		(2,385)
Lease termination fees	6,295	3,224	210	2,458	403		
Other	29,261	12,081	11,568	1,170	5,203		(761)
Total revenues	1,753,350	675,822	412,675	362,227	197,878		104,748
Operating expenses	697,961	288,155	134,049	125,861	97,168		52,728
Depreciation and amortization	317,915	107,895	83,801	59,026	33,957		33,236
General and administrative	138,091	14,778	20,708	20,070	21,806		60,729
Costs of acquisitions and development							
not consummated	8,807						8,807
Total expenses	1,162,774	410,828	238,558	204,957	152,931		155,500
Operating income (loss)	590,576	264,994	174,117	157,270	44,947		(50,752)
Income applicable to Alexander s	35,114	567		560			33,987
Income applicable to Toys	18,343					18,343	
Income from partially owned entities	30,451	5,932	8,178	7,360	737		8,244
Interest and other investment income, net	229,774	1,810	4,609	387	292		222,676
Interest and debt expense	(420,713)	(97,767)	(96,331)	(59,206)	(39,069)		(128,340)
Net gains (losses) on disposition of							
wholly owned and partially owned							
assets other than depreciable real estate	17,699						17,699
Minority interest of partially owned entities	1,414	(2,182)		112			3,484
Income before income taxes	502,658	173,354	90,573	106,483	6,907	18,343	106,998
Income tax expense	(5,403)		(3,992)	(185)	(665)		(561)
Income from continuing operations	497,255	173,354	86,581	106,298	6,242	18,343	106,437
Income (loss) from discontinued operations, net	25,162		27,840	3,000			(5,678)
Income before allocation to							
minority limited partners	522,417	173,354	114,421	109,298	6,242	18,343	100,759
Minority limited partners interest							
in the Operating Partnership	(44,270)						(44,270)
Perpetual preferred unit distributions							
of the Operating Partnership	(14,455)						(14,455)
Net income	463,692	173,354	114,421	109,298	6,242	18,343	42,034
Interest and debt expense ⁽¹⁾	609,548	96,822	100,002	67,222	39,716	128,493	177,293
Depreciation and amortization ⁽¹⁾	500,247	106,885	95,784	61,815	34,387	123,194	78,182
Income tax expense ⁽¹⁾	34,419	2,052	7,816	185	665	20,250	3,451
EBITDA ⁽¹⁾	\$ 1,607,906	\$ 379,113	\$ 318,023	\$ 238,520	\$ 81,010	\$ 290,280	\$ 300,960

The Washington, DC Office segment EBITDA and the Retail segment EBITDA includes \$24,696 and \$3,049, respectively, of net gains on sale of real estate (included in Income (loss) from discontinued operations, net). The Other segment EBITDA includes a \$100,060 net gain on the mark-to-market of derivative instruments, a \$17,699 net gain on sale of marketable equity securities, an \$8,807 write-off for costs of acquisition not consummated and \$1,677 of expense for our share of India real estate ventures organization costs.

See notes on following page.

55

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Net Income and EBITDA by Segment for the Nine Months Ended September 30, 2008 and 2007 continued

Notes to preceding tabular information:

- (1) EBITDA represents Earnings Before Interest, Taxes, Depreciation and Amortization. We consider EBITDA a supplemental measure for making decisions and assessing the un-levered performance of our segments as it relates to the total return on assets as opposed to the levered return on equity. As properties are bought and sold based on a multiple of EBITDA, we utilize this measure to make investment decisions as well as to compare the performance of our assets to that of our peers. EBITDA should not be considered a substitute for net income. EBITDA may not be comparable to similarly titled measures employed by other companies.
- (2) Other EBITDA is comprised of:

(Amounts in thousands)	For the Nine Months Ended September 30,	
	2008	2007
Alexander s	\$37,180	\$56,511
555 California Street (acquired in May 2007)	35,554	18,513
Lexington MLP	29,271	15,006
Hotel Pennsylvania	29,772	24,754
Industrial warehouses	4,025	3,595
GMH (sold in June 2008)		17,872
Other investments	1,488	6,927
	137,290	143,178
Minority limited partners' interest in the Operating Partnership	(42,046)	(44,270)
Perpetual preferred unit distributions of the Operating Partnership	(14,455)	(14,455)
Corporate general and administrative expenses	(62,101)	(53,882)
Write-off of pre-development costs	(34,200)	
Costs of acquisitions and development not consummated	(8,009)	(8,807)
Impairment loss-Lexington MLP	(7,175)	
Investment income and other	44,001	229,385
Discontinued operations of Americold, net (including a \$112,690 net gain on sale in 2008)	118,521	49,811
	\$131,826	\$300,960

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Nine Months Ended September 30, 2008 Compared to September 30, 2007

Revenues

Our revenues, which consist of property rentals, tenant expense reimbursements, hotel revenues, trade shows revenues, amortization of acquired below market leases, net of above market leases, and fee income, were \$2,000,792,000 in the nine months ended September 30, 2008, compared to \$1,753,350,000 in the prior year's nine months, an increase of \$247,442,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
Property rentals:						
Increase (decrease) due to:						
Acquisitions:						
1290 Avenue of the Americas	\$ 46,780	\$ 46,780	\$	\$	\$	\$
555 California Street	37,301					37,301
H Street (effect of consolidating from May 1, 2007 vs. equity method prior)	19,330		19,330			
Other	21,610		961	14,846	5,803	
Development/Redevelopment	(5,535)		(2,552)	(2,345)		(638)
Amortization of acquired below market leases, net	14,813	12,653	95	897	(46)	1,214
Operations:						
Hotel Pennsylvania	8,146					8,146 ⁽¹⁾
Trade shows	4,841				4,841	
Leasing activity	60,959	32,012	18,431	10,640	363	(487)
Total increase in property rentals	208,245	91,445	36,265	24,038	10,961	45,536
Tenant expense reimbursements:						
Increase (decrease) due to:						
Acquisitions/development	13,446	6,041	2,114	3,442		1,849
Operations	17,541	3,138 ⁽²⁾	9,876	6,887	(1,624) ⁽³⁾	(736)
Total increase (decrease) in tenant expense reimbursements	30,987	9,179	11,990	10,329	(1,624)	1,113
Fee and other income:						
Increase (decrease) in:						
Lease cancellation fee income	(1,826)	(1,174)	827	(1,431)	(48)	
Management and leasing fees	(2,568)	1,712	(3,728) ⁽⁴⁾	(260)	295	(587)
BMS Cleaning revenue	8,033	12,595				(4,562) ⁽⁵⁾
Other	4,571	(205)	3,234	846	546	150
Total increase (decrease) in fee and other income	8,210	12,928	333	(845)	793	(4,999)
Total increase in revenues	\$ 247,442	\$ 113,552	\$ 48,588	\$ 33,522	\$ 10,130	\$ 41,650

(1) Revenue per available room (REVPAR) was \$140.54 in the nine months ended September 30, 2008 compared to \$121.91 in the prior year's nine months.

(2) Reflects a decrease in real estate tax reimbursements resulting from lower tax assessments and new tenant base years.

(3) Primarily from reimbursements recorded in the prior year's nine months resulting from a reassessment of 2006 real estate taxes.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

- (4) Primarily from leasing fees in 2007 in connection with our management of a development project.
- (5) Represents the elimination of inter-company cleaning revenue from our other operating segments upon consolidation. See page 58 for the elimination of inter-company cleaning charges.

57

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Nine Months Ended September 30, 2008 Compared to September 30, 2007 - continued

Expenses

Our expenses, which consist of operating, depreciation and amortization and general and administrative expenses, were \$1,349,348,000 in the nine months ended September 30, 2008, compared to \$1,162,774,000 in the prior year's nine months, an increase of \$186,574,000. Below are the details of the increase (decrease) by segment:

(Amounts in thousands)

	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
Operating:						
Increase (decrease) due to:						
Acquisitions:						
1290 Avenue of the Americas	\$9,148	\$19,148	\$	\$	\$	\$
555 California Street	17,442					17,442
H Street (effective of consolidating from May 1, 2007 vs. equity method prior)	8,300		8,300			
Other	12,196		1,581	5,286	5,329	
Development/Redevelopment	225		(784	) 1,318		(309)
Hotel activity	2,784					2,784
Trade shows activity	(1,308)				(1,308)	
Operations	37,163	26,542 ⁽¹⁾	18,074	12,183	1,558	(21,194) ⁽²⁾
Total increase (decrease) in operating expenses	95,950	45,690	27,171	18,787	5,579	(1,277)
Depreciation and amortization:						
Increase due to:						
Acquisitions/Development	44,632	23,618	7,288	2,372		11,354
Operations (due to additions to buildings and improvements)	35,716	12,036	13,810	2,198	4,367	3,305
Total increase in depreciation and amortization	80,348	35,654	21,098	4,570	4,367	14,659
General and administrative:						
Increase (decrease) due to:						
Acquisitions/Development and Other	6,628		(14)	1,924		4,718
Operations	4,446	128	(1,870)	1,111	115	4,962 ⁽³⁾
Total increase (decrease) in general and administrative	11,074	128	(1,884)	3,035	115	9,680
Costs of acquisitions and development not consummated	(798)					(798)
Total increase in expenses	\$86,574	\$81,472	\$ 46,385	\$26,392	\$ 10,061	\$22,264

(1) Primarily from an \$11,498 increase in BMS operating expenses and a \$15,044 increase in property level operating expenses.

(2) Primarily from an increase in the elimination of inter-company fees of our operating segments upon consolidation.

(3) Primarily from an increase in compensation expense and professional fees.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Nine Months Ended September 30, 2008 Compared to September 30, 2007 - continued

Income Applicable to Alexander's

Our 32.6% share of Alexander's net income (comprised of equity in net income, management, leasing, and development fees) was \$16,404,000 in the nine months ended September 30, 2008, compared to \$35,114,000 in the prior year's nine months, a decrease of \$18,710,000. This decrease was primarily due to \$7,605,000 for our share of stock appreciations rights compensation expense in the current period, compared to \$8,991,000 of income for our share of the reversal of accrued stock appreciation right compensation expense in the prior period.

Income Applicable to Toys

Our 32.7% share of Toys' net income (comprised of equity in net income, interest income on loans receivable, and management fees) was \$41,510,000 in the nine months ended September 30, 2008, or \$124,288,000 before our share of Toys' income tax expense, compared to \$18,343,000, or \$38,593,000 before our share of Toys' income tax expense for the prior year's nine months. Toys prepares its consolidated financial statements using the historical cost basis (Recap basis) of accounting. We account for our investment in Toys on the purchase accounting 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 has no effect on cash actually paid for income taxes or Toys' previously issued Recap basis consolidated financial statements.

(Loss) Income from Partially Owned Entities

Summarized below are the components of (loss) income from partially owned entities for the nine months ended September 30, 2008 and 2007.

(Amount in thousands)	For The Nine Months	
Equity in Net (Loss) Income:	Ended September 30,	
Beverly Connection:	2008	2007
50% share of equity in net loss (1)	\$(3,950	) \$ (3,676)
Interest and fee income	10,630	8,492
Lexington MLP 7.7% share of equity in net income	6,680	4,816
India real estate ventures 4% to 50% share of equity in net loss	(4,153	) 1,484
GMH Communities L.P. 13.8% share of equity in net income	(1,863	) 5,428
H Street partially owned entities 50% share of equity in net income		5,923
Other (2)	(29,831	) 12,800
	\$(29,167	) \$ 30,451

- (1) The nine months ended September 30, 2008 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 APB 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.

- (2) The nine months ended September 30, 2008 includes a \$34,200 write-off for our share of two joint ventures' pre-development costs, of which \$23,000 represents our 50% share of costs in connection with the abandonment of the arena move /Moynihan East portions of the Farley project.

59

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Nine Months Ended September 30, 2008 Compared to September 30, 2007 - continued

Interest and Other Investment Income, net

Interest and other investment income, net (mark-to-market of derivative positions, interest income on mortgage loans receivable, other interest income and dividend income) was \$47,535,000 in the nine months ended September 30, 2008, compared to \$229,774,000 in the prior year's nine months, a decrease of \$182,239,000. This decrease resulted primarily from:

(Amounts in thousands)

Derivative positions in marketable equity securities - net loss of \$25,812 in the current year's nine months compared to a net gain of \$100,060 in the prior year's nine months	\$ (125,872)
Decrease in interest income as a result of lower average yields on investments (2.7% in the current year's nine months compared to 5.1% in the prior year's nine months)	(27,675)
Decrease in interest income on mezzanine loans as a result of lower average investments (\$482,053 in the current year's nine months compared to \$623,198 in the prior year's nine months)	(14,904)
Partial reversal of MPH mezzanine loan loss accrual (see below)	10,300
Marketable equity securities - impairment losses	(20,881)
Other, net	(3,207)
	\$ (182,239)

On June 5, 2007, we acquired a 42% interest in two MPH mezzanine loans totaling \$158,700,000, for \$66,000,000 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. As of December 31, 2007, we reduced the net carrying amount of the loans to \$9,000,000 by recognizing a \$57,000,000 non-cash charge which is included as a reduction of interest and other investment income on our consolidated statement of income. On April 2, 2008, we sold a sub-participation interest in the loans for \$19,300,000. The sub-participation did not meet the criteria for sale accounting under Statement of Financial Accounting Standard No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SFAS 140) because the sub-participant is not free to pledge or exchange the asset. In the first quarter of 2008, we reduced our valuation allowance from \$57,000,000 to \$46,700,000, resulting in the recognition of \$10,300,000 of interest and other investment income, net in our consolidated statement of income in the nine months ended September 30, 2008.

Interest and Debt Expense

Interest and debt expense was \$446,534,000 in the nine months ended September 30, 2008, compared to \$420,713,000 in the prior year's nine months, an increase of \$25,821,000. This increase resulted primarily from higher average debt outstanding partially offset by lower weighted average interest rates and higher capitalized interest related to a larger amount of assets under development. The prior year's nine months also included \$7,472,000 of expense from the early extinguishment of debt.

Net Gains on Disposition of Wholly Owned and Partially Owned Assets Other than Depreciable Real Estate

Net gains on disposition of wholly owned and partially owned assets other than depreciable real estate was \$8,546,000 in the nine months ended September 30, 2008, compared to \$17,669,000 in the nine months ended September 30, 2007. The nine months ended September 30, 2008 includes a \$4,427,000 pre-tax gain on sale of residential condominiums at our 40 East 66th Street property, a \$2,038,000 net gain on disposition of our 13.8% interest in GMH and \$2,081,000 for net gains on sale of marketable securities. The \$17,669,000 net gain in the nine months ended September 30, 2007 represents net gains on sale of marketable securities.

Minority Interest of Partially Owned Entities

Minority interest of partially owned entities was income of \$2,709,000 in the nine months ended September 30, 2008, compared to income of \$1,414,000 in the prior years nine months and represents the minority partners' pro rata share of the net income or loss of consolidated partially owned entities, including 1290 Avenue of the Americas, 555 California Street, 220 Central Park South, Wasserman and the Springfield Mall.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Nine Months Ended September 30, 2008 Compared to September 30, 2007 - continued

Income Tax Benefit / Expense

In the nine months ended September 30, 2008, we had an income tax benefit of \$207,170,000, compared to an expense of \$5,403,000 in the prior year's nine months, a decrease of \$212,573,000. The decrease results primarily from a \$222,174,000 reversal of deferred taxes recorded in connection with the acquisition of H Street. 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.

Discontinued Operations

The combined results of discontinued operations for the nine months ended September 30, 2008 and 2007 include the operating results of Tysons Dulles Plaza, which was sold on June 10, 2008; Americold, which was sold on June 30, 2008; 19.6 acres of land we acquired as part of our acquisition of H Street, of which 11 acres were sold in September 2007; Vineland, New Jersey, which was sold on July 16, 2007; Crystal Mall Two, which was sold on August 9, 2007; and Arlington Plaza, which was sold on October 17, 2007.

(Amounts in thousands)	For the Nine Months Ended September 30,	
	2008	2007
Total revenues	\$222,361	\$633,825
Total expenses	238,132	636,408
Net loss	(15,771)	(2,583)
Net gain on sale of Americold	112,690	
Net gain on sale of Tysons Dulles Plaza	56,831	
Net gain on sale of Crystal Mall Two		19,893
Net gains on sale of other real estate	692	7,852
Income from discontinued operations, net of minority interest	\$154,442	\$25,162

Minority Limited Partners Interest in the Operating Partnership

Minority limited partners' interest in the Operating Partnership was \$42,046,000 in the nine months ended September 30, 2008, compared to \$44,270,000 in the prior year's nine months.

Perpetual Preferred Unit Distributions of the Operating Partnership

Perpetual preferred unit distributions of the Operating Partnership were \$14,455,000 in the nine-month periods ended September 30, 2008 and 2007.

Preferred Share Dividends

Preferred share dividends were \$42,820,000 in the nine months ended September 30, 2008, compared to \$42,886,000 in the prior year's nine months.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Results of Operations Nine Months Ended September 30, 2008 Compared to September 30, 2007 - continued

EBITDA by Segment

Below are the details of the changes in EBITDA by segment for the nine months ended September 30, 2008 from the nine months ended September 30, 2007.

(Amounts in thousands)	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other
Nine Months ended September 30, 2007	\$ 1,607,906	\$ 379,113	\$ 318,023	\$ 238,520	\$ 81,010	\$ 290,280	\$ 300,960
2008 Operations:							
Same store operations ⁽¹⁾		23,031	13,097	8,190	1,417		
Acquisitions, dispositions and non-same store income and expenses		34,179	23,765	8,153	3,132		
Nine Months ended September 30, 2008	\$ 1,600,005	\$ 436,323	\$ 354,885	\$ 254,863	\$ 85,559	\$ 336,549	\$ 131,826
% increase in same store operations		6.1%	4.6%	3.8%	1.3%	N/A	

-
- (1) Represents the increase in property-level operations which were owned for the same period in each year and excludes the effect of property acquisitions, dispositions and other non-operating items that affect comparability, including divisional general and administrative expenses. We utilize this measure to make decisions on whether to buy or sell properties as well as to compare the performance of our properties to that of our peers. Same store operations may not be comparable to similarly titled measures employed by other companies.

LIQUIDITY AND CAPITAL RESOURCES

We may from time to time seek to purchase or retire our outstanding debt securities through cash purchases and/or exchanges for our equity securities, in open market purchases, privately negotiated transactions or otherwise. Such purchases and/or exchanges, if any, will depend on prevailing market conditions, our liquidity requirements and other factors. The amounts involved in connection with these transactions could be material to our consolidated financial statements.

Cash Flows for the Nine Months Ended September 30, 2008

Property rental income is our primary source of cash flow and is dependent upon the occupancy and rental rates of our properties. Other sources of liquidity to fund cash requirements include proceeds from debt financings, including mortgage loans, senior unsecured borrowings, and our revolving credit facilities; proceeds from the issuance of common and preferred equity; and asset sales. Our cash requirements include property operating expenses, capital improvements, tenant improvements, leasing commissions, distributions to common and preferred shareholders, as well as acquisition and development costs. Our cash and cash equivalents were \$1,529,012,000 at September 30, 2008, a \$374,417,000 increase over the balance at December 31, 2007. This increase resulted from \$647,609,000 of net cash provided by operating activities, partially offset by \$138,563,000 of net cash used in investing activities and \$134,629,000 of net cash used in financing activities. Property rental income represents our primary source of net cash provided by operating activities.

Our consolidated outstanding debt was \$12,190,797,000 at September 30, 2008, a \$294,759,000 increase over the balance at December 31, 2007. This increase resulted primarily from debt associated with property refinancings. As of September 30, 2008 and December 31, 2007, \$10,218,000 and \$405,656,000, respectively, was outstanding under our revolving credit facilities. During the remainder of 2008 and 2009, \$0 and \$380,000,000 of our outstanding debt matures, respectively. We may refinance such debt or choose to repay all or a portion, using existing cash balances or our revolving credit facilities.

Our share of debt of unconsolidated subsidiaries was \$3,045,615,000 at September 30, 2008, a \$244,258,000 decrease from the balance at December 31, 2007. This resulted primarily from a \$173,000,000 decrease in our share of Toys R Us outstanding debt and from the disposition of our 13.8% interest in GMH.

Cash flows provided by operating activities of \$647,609,000 was primarily comprised of (i) net income of \$597,558,000, (ii) \$20,901,000 of non-cash adjustments, including depreciation and amortization expense, the effect of straight-lining of rental income, equity in net income of partially owned entities, minority interest expense, (iii) distributions of income from partially owned entities of \$12,021,000, and (iv) the net change in operating assets and liabilities of \$17,129,000.

Net cash used in investing activities of \$138,563,000 was primarily comprised of (i) development and redevelopment expenditures of \$413,947,000, (ii) investments in partially owned entities of \$115,250,000, (iii) additions to real estate of \$158,434,000, (iv) acquisitions of real estate and related investments of \$36,566,000, (v) restricted cash (primarily mortgage escrows) of \$22,674,000, (vi) purchases of marketable equity securities of \$8,035,000 and (vii) investments in mezzanine loans receivable of \$7,397,000, partially offset by, (viii) proceeds from the sale of real estate (primarily Americold and Tysons Dulles Plaza) of \$352,511,000, (ix) distributions of capital from partially owned entities of \$182,090,000, (x) proceeds received from repayments on mezzanine loans receivable of \$52,032,000 and (xi) proceeds from the sale of marketable securities of \$47,723,000.

Net cash used in financing activities of \$134,629,000 was primarily comprised of (i) repayments of borrowings of \$1,043,734,000, (ii) dividends paid on common shares of \$415,169,000, (iii) distributions to minority partners of \$65,925,000 and (iv) dividends paid on preferred shares of \$42,841,000, partially offset by, (v) proceeds from borrowings of \$1,424,458,000 and (vi) proceeds received from exercises of employee stock options of \$21,981,000.

Capital Expenditures

Our capital expenditures consist of expenditures to maintain assets, tenant improvements and leasing commissions. Recurring capital improvements include expenditures to maintain a property's competitive position within the market and tenant improvements and leasing commissions necessary to re-lease expiring leases or renew or extend existing leases. Non-recurring capital improvements include expenditures completed in the year of acquisition and the following two years that were planned at the time of acquisition as well as tenant improvements and leasing commissions for space that was vacant at the time of acquisition of a property. Our development and redevelopment expenditures include all hard and soft costs associated with the development or redevelopment of a property, including tenant improvements, leasing commissions and capitalized interest and operating costs until the property is substantially complete and ready for its intended use.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

LIQUIDITY AND CAPITAL RESOURCES - continued

Below are the details of capital expenditures, leasing commissions and development and redevelopment expenditures and a reconciliation of total expenditures on an accrual basis to the cash expended in the nine months ended September 30, 2008.

(Amounts in thousands)	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
Capital Expenditures						
(Accrual basis):						
Expenditures to maintain the assets:						
Recurring	\$ 33,988	\$ 15,114	\$ 6,993	\$ 1,517	\$ 8,702	\$ 1,662
Non-recurring	9,950	3,034	2,069			4,847
Total	43,938	18,148	9,062	1,517	8,702	6,509
Tenant improvements:						
Recurring	54,958	20,035	22,896	4,417	7,610	
Non-recurring	14,084	6,822		285	6,846	131
Total	69,042	26,857	22,896	4,702	14,456	131
Leasing Commissions:						
Recurring	21,688	15,015	5,130	1,003	540	
Non-recurring	8,423	5,909		112	2,221	181
Total	30,111	20,924	5,130	1,115	2,761	181
<i>Tenant improvements and leasing commissions:</i>						
<i>Per square foot</i>	<i>\$ 22.60</i>	<i>\$ 46.81</i>	<i>\$ 16.27</i>	<i>\$ 9.95</i>	<i>\$ 19.57</i>	<i>\$</i>
<i>Per square foot per annum</i>	<i>\$ 2.92</i>	<i>\$ 5.09</i>	<i>\$ 2.14</i>	<i>\$ 1.31</i>	<i>\$ 3.03</i>	<i>\$</i>
<i>Percentage of initial rent</i>	<i>6.8%</i>	<i>7.1%</i>	<i>5.6%</i>	<i>4.1%</i>	<i>11.0%</i>	
Total Capital Expenditures and Leasing						
Commissions (accrual basis)	\$ 143,091	\$ 65,929	\$ 37,088	\$ 7,334	\$ 25,919	\$ 6,821
Adjustments to reconcile accrual						
basis to cash basis:						
Expenditures in the current year						
applicable to prior periods	98,319	53,997	14,430	6,440	20,306	3,146
Expenditures to be made in future						
periods for the current period	(60,484)	(29,135)	(20,127)	(5,817)	(5,274)	(131)
Total Capital Expenditures and						
Leasing Commissions (Cash basis)	\$ 180,926	\$ 90,791	\$ 31,391	\$ 7,957	\$ 40,951	\$ 9,836
Development and Redevelopment						
Expenditures (1):						
Bergen Town Center	\$ 93,685	\$	\$	\$ 93,685	\$	\$
Wasserman venture	51,405					51,405
1999 K Street	32,837		32,837			
40 East 66 th Street	28,634					28,634
220 Central Park South	26,538					26,538
220 20 th Street	25,627		25,627			
Manhattan Mall	22,493			22,493		
West End 25	16,852		16,852			
2101 L Street	11,987		11,987			
Springfield Mall	9,749			9,749		
North Bergen, New Jersey	7,267			7,267		
Green Acres Mall	3,632			3,632		

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Other	83,241	19,045	15,861	33,365	5,023	9,947
	\$ 413,947	\$ 19,045	\$ 103,164	\$ 170,191	\$ 5,023	\$ 116,524

(1) Excludes development expenditures of partially owned, non-consolidated investments.

64

LIQUIDITY AND CAPITAL RESOURCES - CONTINUED

Cash Flows for the Nine Months Ended September 30, 2007

Our cash and cash equivalents was \$834,274,000 at September 30, 2007, a \$1,399,043,000 decrease over the balance at December 31, 2006. This decrease resulted from \$3,065,557,000 of net cash used in investing activities, partially offset by, \$1,179,421,000 of net cash provided by financing activities and \$487,093,000 of net cash provided by operating activities. Property rental income represents our primary source of net cash provided by operating activities. Our property rental income is primarily dependent upon the occupancy and rental rates of our properties. Other sources of liquidity to fund our cash requirements include proceeds from debt financings, including mortgage loans and corporate level unsecured borrowings; our revolving credit facilities; proceeds from the issuance of common and preferred equity; and asset sales. Our cash requirements include property operating expenses, capital improvements, tenant improvements, leasing commissions, distributions to our common and preferred shareholders, as well as acquisition and development costs.

Our consolidated outstanding debt was \$12,576,484,000 at September 30, 2007, a \$3,021,686,000 increase over the balance at December 31, 2006. This increase resulted primarily from the issuance of \$1,400,000,000 of convertible senior debentures due 2026 and from mortgage debt associated with asset acquisitions and property refinancings during 2007.

Our share of debt of unconsolidated subsidiaries was \$3,104,451,000 at September 30, 2007, a \$218,556,000 decrease from the balance at December 31, 2006. This decrease resulted primarily from our \$297,906,000 share of Toys decrease in outstanding debt.

Cash flows provided by operating activities of \$487,093,000 was primarily comprised of (i) net income of \$463,692,000, after adjustments of \$125,150,000 for non-cash items, including depreciation and amortization expense, net gains from derivative positions, the effect of straight-lining of rental income, equity in net income of partially owned entities, minority interest expense, (ii) distributions of income from partially owned entities of \$18,047,000, partially offset by, (iii) the net change in operating assets and liabilities of \$119,796,000.

Net cash used in investing activities of \$3,065,557,000 was primarily comprised of (i) acquisitions of real estate of \$2,775,982,000, (ii) investments in notes and mortgage loans receivable of \$211,942,000, (iii) deposits in connection with real estate acquisitions and pre-acquisition costs of \$21,231,000, (iv) investments in partially owned entities of \$201,432,000, (v) development and redevelopment expenditures of \$231,575,000, (vi) investments in marketable securities of \$152,683,000, partially offset by, (vii) proceeds received from repayments on mortgage loans receivable of \$211,942,000 and (viii) proceeds received from sales of real estate of \$217,941,000.

Net cash provided by financing activities of \$1,179,421,000 was primarily comprised of (i) proceeds from borrowings of \$2,517,105,000, of which \$1,372,000,000 were proceeds received from the offering of the 2.85% convertible senior debentures due 2027, partially offset by, (ii) repayments of borrowings of \$727,730,000, (iii) dividends paid on common shares of \$387,268,000, (iv) purchases of marketable securities in connection with the legal defeasance of mortgage notes payable of \$109,092,000, (v) distributions to minority partners of \$62,169,000, and (vi) dividends paid on preferred shares of \$42,940,000.

LIQUIDITY AND CAPITAL RESOURCES - continued

Capital Expenditures

Below are the details of capital expenditures, leasing commissions and development and redevelopment expenditures and a reconciliation of total expenditures on an accrual basis to the cash expended in the nine months ended September 30, 2007.

(Amounts in thousands)	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Other
Capital Expenditures						
(Accrual basis):						
Expenditures to maintain the assets:						
Recurring	\$ 28,859	\$ 9,380	\$ 8,808	\$ 1,477	\$ 9,172	\$ 22
Non-recurring						
Total	28,859	9,380	8,808	1,477	9,172	22
Tenant improvements:						
Recurring	61,107	25,781	17,472	2,184	15,670	
Non-recurring	260			260		
Total	61,367	25,781	17,472	2,444	15,670	
Leasing Commissions:						
Recurring	29,311	18,581	5,871	2,228	2,631	
Non-recurring	381			381		
Total	29,692	18,581	5,871	2,609	2,631	
<i>Tenant improvements and leasing commissions:</i>						
<i>Per square foot</i>	<i>\$ 21.75</i>	<i>\$ 48.69</i>	<i>\$ 14.93</i>	<i>\$ 10.40</i>	<i>\$ 17.17</i>	<i>\$</i>
<i>Per square foot per annum</i>	<i>\$ 3.12</i>	<i>\$ 5.41</i>	<i>\$ 2.53</i>	<i>\$ 1.21</i>	<i>\$ 2.82</i>	<i>\$</i>
<i>Percentage of initial rent</i>	<i>7.7%</i>	<i>7.4%</i>	<i>7.1%</i>	<i>3.6%</i>	<i>10.8%</i>	
Total Capital Expenditures and Leasing Commissions (accrual basis)	\$ 119,918	\$ 53,742	\$ 32,151	\$ 6,530	\$ 27,473	\$ 22
Adjustments to reconcile accrual basis to cash basis:						
Expenditures in the current year applicable to prior periods	49,843	13,420	25,115	3,368	7,940	
Expenditures to be made in future periods for the current period	(63,695)	(32,594)	(16,873)	(3,797)	(10,431)	
Total Capital Expenditures and Leasing Commissions (Cash basis)	\$ 106,066	\$ 34,568	\$ 40,393	\$ 6,101	\$ 24,982	\$ 22
Development and Redevelopment Expenditures (1):						
Bergen Town Center	\$ 41,043	\$	\$	\$ 41,043	\$	\$
2101 L Street	28,387		28,387			
Crystal Mall Two	26,895		26,895			
Wasserman venture	26,893					26,893
Green Acres Mall	26,830			26,830		
North Bergen, New Jersey (Ground-up development)	14,493			14,493		
220 Central Park South	12,400					12,400

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Springfield Mall	4,412			4,412	
888 Seventh Avenue	4,211	4,211			
Other	46,011	2,953	21,353	12,596	9,109
	\$ 231,575	\$ 7,164	\$ 76,635	\$ 99,374	\$ 48,402

(1) Excludes development expenditures of partially owned, non-consolidated investments.

66

SUPPLEMENTAL INFORMATION

Three Months Ended September 30, 2008 vs. Three Months Ended June 30, 2008

Our revenues and expenses are subject to seasonality during the year which impacts quarter-by-quarter net earnings, cash flows and funds from operations. The business of Toys is highly seasonal. Historically, Toys' fourth quarter net income, which we recorded on a one-quarter lag basis in our first quarter, accounts for more than 80% of Toys' fiscal year net income. The Office and Merchandise Mart segments have historically experienced higher utility costs in the first and third quarters of the year. The Merchandise Mart segment also has experienced higher earnings in the second and fourth quarters of the year due to major trade shows occurring in those quarters.

Below are the details of the changes in EBITDA by segment for the three months ended September 30, 2008 from the three months ended June 30, 2008.

(Amounts in thousands)	Total	New York Office	Washington, DC Office	Retail	Merchandise Mart	Toys	Other
For the three months ended June 30, 2008	\$ 508,391	\$ 148,548	\$ 158,009	\$ 87,804	\$ 35,438	\$ 37,032	\$ 41,560
2008 Operations:							
Same store operations ⁽¹⁾		(1,893)	(2,487)	542	(11,250)		
Acquisitions, dispositions and non-same store income and expenses		(2,119)	(58,182)	(3,213)	200		
For the three months ended September 30, 2008	\$ 413,051	\$ 144,536	\$ 97,340	\$ 85,133	\$ 24,388	\$ 49,639	\$ 12,015
% (decrease) increase in same store operations		(1.2%) ⁽²⁾	(2.4%) ⁽²⁾	0.7%	(26.1%) ⁽³⁾	N/A	

(1) Represents the increase in property-level operations which were owned for the same period in each year and excludes the effect of property acquisitions, dispositions and other non-operating items that affect comparability, including divisional general and administrative expenses. We utilize this measure to make decisions on whether to buy or sell properties as well as to compare the performance of our properties to that of our peers. Same store operations may not be comparable to similarly titled measures employed by other companies.

(2) Reflects a seasonal increase in utility costs during the third quarter, of which \$6,501 relates to the New York Office segment and \$3,504 relates to the Washington, DC Office segment. Excluding the seasonal increase in utilities, New York Office same store operations increased by 3.0% and Washington, DC Office same store operations increased by 1.0%.

(3) Results primarily from seasonality of operations.

The following table reconciles net income to EBITDA for the quarter ended June 30, 2008.

(Amounts in thousands)	Total	Retail	Toys	Other
------------------------	-------	--------	------	-------

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

		New York Office	Washington, DC Office		Merchandise Mart		
Net income (loss) for the quarter ended							
June 30, 2008	\$ 139,660	\$ 69,716	\$ 89,993	\$ 40,106	\$ 8,108	\$ (30,711)	\$ (37,552)
Interest and debt expense	192,239	31,827	34,086	25,932	13,230	33,906	53,258
Depreciation and amortization	170,493	47,005	33,870	21,766	13,919	34,034	19,899
Income tax (benefit) expense	5,999		60		181	(197)	5,955
EBITDA for the quarter ended							
June 30, 2008	\$ 508,391	\$ 148,548	\$ 158,009	\$ 87,804	\$ 35,438	\$ 37,032	\$ 41,560

FUNDS FROM OPERATIONS (FFO)

FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT). NAREIT defines FFO as net income or loss determined in accordance with GAAP, excluding extraordinary items as defined under GAAP and gains or losses from sales of previously depreciated operating real estate assets, plus specified non-cash items, such as real estate asset depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. FFO and FFO per diluted share are used by management, investors and industry analysts as supplemental measures of operating performance of equity REITs. FFO and FFO per diluted share should be evaluated along with GAAP net income and income per diluted share (the most directly comparable GAAP measures), as well as cash flow from operating activities, investing activities and financing activities, in evaluating the operating performance of equity REITs. Management believes that FFO and FFO per diluted share are helpful to investors as supplemental performance measures because these measures exclude the effect of depreciation, amortization and gains or losses from sales of real estate, all of which are based on historical costs which implicitly assumes that the value of real estate diminishes predictably over time. Since real estate values instead have historically risen or fallen with market conditions, these non-GAAP measures can facilitate comparisons of operating performance between periods and among other equity REITs. FFO does not represent cash generated from operating activities in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs as disclosed in Our Statements of Cash Flows. FFO should not be considered as an alternative to net income as an indicator of our operating performance or as an alternative to cash flows as a measure of liquidity. The calculations of both the numerator and denominator used in the computation of income per share are disclosed in footnote 10 Income Per Share, in the notes to our consolidated financial statements on page 23 of this Quarterly Report on Form 10-Q.

FFO for the Three and Nine Months Ended September 30, 2008, and 2007

FFO applicable to common shares plus assumed conversions was \$173,787,000, or \$1.06 per diluted share in the quarter ended September 30, 2008, compared to \$221,199,000, or \$1.35 per diluted share in the prior year's quarter. FFO applicable to common shares plus assumed conversions was \$917,258,000 or \$5.60 per diluted share, in the nine months ended September 30, 2008, compared to \$773,457,000, or \$4.71 per diluted share, in the prior year's nine months. Details of certain items that affect comparability are discussed in the financial results summary of our Overview.

	For The Nine Months			
	For The Three Months			
	Ended September 30,	2007	2008	2007
(Amounts in thousands except per share amounts)				
Reconciliation of Net Income to FFO:				
Net income	\$ 45,701	\$ 130,841	\$ 597,558	\$ 463,692
Depreciation and amortization of real property	127,975	117,148	380,062	325,324
Net gains on sale of real estate	(112)	(22,942)	(57,523)	(22,942)
Proportionate share of adjustments to equity in net income of Toys to arrive at FFO:				
Depreciation and amortization of real property	17,892	17,949	50,902	68,984
Net gain on sale of real estate	(164)		(164)	(493)
Income tax effect of above adjustments	(6,205)	(6,282)	(17,981)	(23,972)
Proportionate share of adjustments to equity in net income of partially owned entities, excluding Toys, to arrive at FFO:				
Depreciation and amortization of real property	12,524	13,506	35,778	36,091
Net gains on sale of real estate	(1,037)	(8,980)	(8,231)	(8,980)
Minority limited partners' share of above adjustments	(13,816)	(11,070)	(36,232)	(37,570)
FFO	182,758	230,170	944,169	800,134
Preferred share dividends	(14,271)	(14,295)	(42,820)	(42,886)
FFO applicable to common shares	168,487	215,875	901,349	757,248
Interest on 3.875% exchangeable senior debentures	5,255	5,256	15,764	15,768
Series A convertible preferred dividends	45	68	145	441
FFO applicable to common shares plus assumed conversions	\$ 173,787	\$ 221,199	\$ 917,258	\$ 773,457

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Reconciliation of Weighted Average Shares:

Weighted average common shares outstanding	154,025	151,990	153,668	151,739
Effect of dilutive securities:				
Employee stock options and restricted share awards	4,663	6,407	4,609	6,743
3.875% exchangeable senior debentures	5,559	5,559	5,559	5,559
Series A convertible preferred shares	77	116	82	172
Denominator for diluted FFO per share	164,324	164,072	163,918	164,213
FFO applicable to common shares plus assumed conversions per diluted share	\$ 1.06	\$ 1.35	\$ 5.60	\$ 4.71

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We have exposure to fluctuations in market interest rates. Market interest rates are sensitive to many factors that are beyond our control. Our exposure to a change in interest rates on our consolidated and non-consolidated debt (all of which arises out of non-trading activity) is as follows:

(Amounts in thousands, except per share amounts)	September 30, 2008			December 31, 2007	
	Weighted	Effect of 1 %		Weighted	
	Average	Change In		Average	
	Balance	Interest Rate	Base Rates	Balance	Interest Rate
Consolidated debt:					
Variable rate	\$ 1,541,304	4.05%	\$ 15,413	\$ 1,113,181	5.86%
Fixed rate	10,649,493	5.19%		10,782,857	5.24%
	\$ 12,190,797	5.05%	15,413	\$ 11,896,038	5.29%
Pro-rata share of debt of non-consolidated entities (non-recourse):					
Variable rate excluding Toys	\$ 291,202	4.42%	2,912	\$ 193,655	6.74%
Variable rate Toys	688,018	5.16%	6,880	1,072,431	7.14%
Fixed rate (including \$1,240,264, and \$1,010,487 of Toys debt in 2008 and 2007)	2,066,395	6.70%		2,023,787	6.88%
	\$ 3,045,615	6.13%	9,792	\$ 3,289,873	6.96%
Minority limited partners share of above			(2,520)		
Total change in annual net income			\$ 22,685		
Per share-diluted			\$ 0.13		

We may utilize various financial instruments to mitigate the impact of interest rate fluctuations on our cash flows and earnings, including hedging strategies, depending on our analysis of the interest rate environment and the costs and risks of such strategies. As of September 30, 2008, variable rate debt with an aggregate principal amount of \$410,998,000 and a weighted average interest rate of 3.85% was subject to LIBOR caps. These caps are based on a notional amount of \$412,000,000 and cap LIBOR at a weighted average rate of 6.16%. As of September 30, 2008, we have investments in mezzanine loans with an aggregate carrying amount of \$468,531,000 at variable interest rates which partially mitigate our exposure to a change in interest rates on our variable rate debt.

Fair Value of Debt

As of September 30, 2008, the carrying amount of our debt exceeds its aggregate fair value by approximately \$556,875,000, based on current market prices and discounted cash flows at the current rate at which similar loans would be made to borrowers with similar credit ratings for the remaining term of such debt.

Derivative Instruments in Marketable Equity Securities

We have, and may in the future enter into, derivative positions in marketable equity securities that do not qualify for hedge accounting treatment. Because these derivatives do not qualify for hedge accounting treatment, the gains or losses resulting from their mark-to-market at the end of each reporting period are recognized as an increase or decrease in interest and other investment income on our consolidated statements of income. In addition, we are, and may in the future be, subject to additional expense based on the notional amount of the derivative positions and a specified spread over LIBOR. Because the market value of these instruments can vary significantly between periods, we may experience significant fluctuations in the amount of our investment income or expense. During the three and nine months ended September 30, 2008 we recognized net losses of \$3,982,000 and \$25,812,000, respectively, and during the three and nine months ended September 30, 2007 we recognized net gains of \$18,606,000, and \$100,060,000 respectively.

Item 4. Controls and Procedures

Disclosure Controls and Procedures: The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2008, such disclosure controls and procedures were effective.

Internal Control Over Financial Reporting: There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are from time to time involved in 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 below, 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 re-allocate 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 various 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 has sought re-argument and renewal on, and filed a notice of appeal in connection with, his dismissed claims. 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 would not be material to our consolidated financial statements.

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, we 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 will not have a material effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

There were no material changes to the Risk Factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2007.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K are filed herewith or incorporated herein by reference and are listed in the attached Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

VORNADO REALTY TRUST

(Registrant)

2008 By: /s/ Joseph Macnow

Joseph Macnow, Executive Vice President -Finance and Administration and Chief Financial Officer (duly authorized officer and principal financial and acco

73

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

EXHIBIT INDEX

Exhibit No.

- 3.1 - Articles of Restatement of Vornado Realty Trust, as filed with the State Department of Assessments and Taxation of Maryland* on July 30, 2007 - Incorporated by reference to Exhibit 3.75 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (File No. 001-11954), filed on July 31, 2007
- 3.2 - Amended and Restated Bylaws of Vornado Realty Trust, as amended on March 2, 2000 - Incorporated by reference to Exhibit 3.12 to Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 001-11954), filed on March 9, 2000
- 3.3 - Second Amended and Restated Agreement of Limited Partnership of Vornado Realty L.P., dated as of October 20, 1997 (the Partnership Agreement) - Incorporated by reference to Exhibit 3.26 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File No. 001-11954), filed on May 8, 2003
- 3.4 - Amendment to the Partnership Agreement, dated as of December 16, 1997 - Incorporated by reference to Exhibit 3.27 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File No. 001-11954), filed on May 8, 2003
- 3.5 - Second Amendment to the Partnership Agreement, dated as of April 1, 1998 - Incorporated by reference to Exhibit 3.5 to Vornado Realty Trust's Registration Statement on Form S-3 (File No. 333-50095), filed on April 14, 1998
- 3.6 - Third Amendment to the Partnership Agreement, dated as of November 12, 1998 - Incorporated by reference to Exhibit 3.2 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on November 30, 1998
- 3.7 - Fourth Amendment to the Partnership Agreement, dated as of November 30, 1998 - Incorporated by reference to Exhibit 3.1 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on February 9, 1999
- 3.8 - Fifth Amendment to the Partnership Agreement, dated as of March 3, 1999 - Incorporated by reference to Exhibit 3.1 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on March 17, 1999
- 3.9 - Sixth Amendment to the Partnership Agreement, dated as of March 17, 1999 - Incorporated by reference to Exhibit 3.2 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on July 7, 1999
- 3.10 - Seventh Amendment to the Partnership Agreement, dated as of May 20, 1999 - Incorporated by reference to Exhibit 3.3 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on July 7, 1999
- 3.11 - Eighth Amendment to the Partnership Agreement, dated as of May 27, 1999 - Incorporated by reference to Exhibit 3.4 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on July 7, 1999
- 3.12 - Ninth Amendment to the Partnership Agreement, dated as of September 3, 1999 - Incorporated by reference to Exhibit 3.3 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on October 25, 1999
- 3.13 - Tenth Amendment to the Partnership Agreement, dated as of September 3, 1999 - Incorporated by reference to Exhibit 3.4 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on October 25, 1999

* Incorporated by reference.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

- 3.14 -Eleventh Amendment to the Partnership Agreement, dated as of November 24, 1999 - Incorporated by reference to Exhibit 3.2 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on December 23, 1999 *
- 3.15 -Twelfth Amendment to the Partnership Agreement, dated as of May 1, 2000 - Incorporated by reference to Exhibit 3.2 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on May 19, 2000 *
- 3.16 -Thirteenth Amendment to the Partnership Agreement, dated as of May 25, 2000 - Incorporated by reference to Exhibit 3.2 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on June 16, 2000 *
- 3.17 -Fourteenth Amendment to the Partnership Agreement, dated as of December 8, 2000 - Incorporated by reference to Exhibit 3.2 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on December 28, 2000 *
- 3.18 -Fifteenth Amendment to the Partnership Agreement, dated as of December 15, 2000 - Incorporated by reference to Exhibit 4.35 to Vornado Realty Trust's Registration Statement on Form S-8 (File No. 333-68462), filed on August 27, 2001 *
- 3.19 -Sixteenth Amendment to the Partnership Agreement, dated as of July 25, 2001 - Incorporated by reference to Exhibit 3.3 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on October 12, 2001 *
- 3.20 -Seventeenth Amendment to the Partnership Agreement, dated as of September 21, 2001 - Incorporated by reference to Exhibit 3.4 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on October 12, 2001 *
- 3.21 -Eighteenth Amendment to the Partnership Agreement, dated as of January 1, 2002 - Incorporated by reference to Exhibit 3.1 to Vornado Realty Trust's Current Report on Form 8-K/A (File No. 001-11954), filed on March 18, 2002 *
- 3.22 -Nineteenth Amendment to the Partnership Agreement, dated as of July 1, 2002 - Incorporated by reference to Exhibit 3.47 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (File No. 001-11954), filed on August 7, 2002 *
- 3.23 -Twentieth Amendment to the Partnership Agreement, dated April 9, 2003 - Incorporated by reference to Exhibit 3.46 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (File No. 001-11954), filed on May 8, 2003 *
- 3.24 -Twenty-First Amendment to the Partnership Agreement, dated as of July 31, 2003 - Incorporated by reference to Exhibit 3.47 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (File No. 001-11954), filed on November 7, 2003 *
- 3.25 -Twenty-Second Amendment to the Partnership Agreement, dated as of November 17, 2003 - Incorporated by reference to Exhibit 3.49* to Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-11954), filed on March 3, 2004
- 3.26 -Twenty-Third Amendment to the Partnership Agreement, dated May 27, 2004 - Incorporated by reference to Exhibit 99.2 to Vornado Realty Trust's Current Report on Form 8-K (File No. 001-11954), filed on June 14, 2004 *
- 3.27 -Twenty-Fourth Amendment to the Partnership Agreement, dated August 17, 2004 - Incorporated by reference to Exhibit 3.57 to Vornado Realty Trust and Vornado Realty L.P.'s Registration Statement on Form S-3 (File No. 333-122306), filed on January 26, 2005 *

* Incorporated by reference.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

- 3.28 - Twenty-Fifth Amendment to the Partnership Agreement, dated November 17, 2004 Incorporated by reference to Exhibit 3.58 to Vornado Realty Trust and Vornado Realty L.P. s Registration Statement on Form S-3 (File No. 333-122306), filed on January 26, 2005 *
- 3.29 - Twenty-Sixth Amendment to the Partnership Agreement, dated December 17, 2004 Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P. s Current Report on Form 8-K (File No. 000-22685), filed on December 21, 2004 *
- 3.30 - Twenty-Seventh Amendment to the Partnership Agreement, dated December 20, 2004 Incorporated by reference to Exhibit 3.2 to Vornado Realty L.P. s Current Report on Form 8-K (File No. 000-22685), filed on December 21, 2004 *
- 3.31 - Twenty-Eighth Amendment to the Partnership Agreement, dated December 30, 2004 - Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P. s Current Report on Form 8-K (File No. 000-22685), filed on January 4, 2005 *
- 3.32 - Twenty-Ninth Amendment to the Partnership Agreement, dated June 17, 2005 - Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P. s Current Report on Form 8-K (File No. 000-22685), filed on June 21, 2005 *
- 3.33 - Thirtieth Amendment to the Partnership Agreement, dated August 31, 2005 - Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P. s Current Report on Form 8-K (File No. 000-22685), filed on September 1, 2005 *
- 3.34 - Thirty-First Amendment to the Partnership Agreement, dated September 9, 2005 - Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P. s Current Report on Form 8-K (File No. 000-22685), filed on September 14, 2005 *
- 3.35 - Thirty-Second Amendment and Restated Agreement of Limited Partnership, dated as of December 19, 2005 Incorporated by reference to Exhibit 3.59 to Vornado Realty L.P. s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (File No. 000-22685), filed on May 8, 2006 *
- 3.36 - Thirty-Third Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of April 25, 2006 Incorporated by reference to Exhibit 10.2 to Vornado Realty Trust s Form 8-K (File No. 001-11954), filed on May 1, 2006 *
- 3.37 - Thirty-Fourth Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of May 2, 2006 Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P. s Current Report on Form 8-K (File No. 000-22685), filed on May 3, 2006 *
- 3.38 - Thirty-Fifth Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of August 17, 2006 Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P. s Form 8-K (File No. 000-22685), filed on August 23, 2006 *
- 3.39 - Thirty-Sixth Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of October 2, 2006 Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P. s Form 8-K (File No. 000-22685), filed on January 22, 2007 *
- 3.40 - Thirty-Seventh Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of June 28, 2007 Incorporated by reference to Exhibit 3.1 to Vornado Realty L.P. s Current Report on Form 8-K (File No. 000-22685), filed on June 27, 2007 *

* Incorporated by reference.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

- 3.41 -Thirty-Eighth Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of June 28, 2007 *
 Incorporated by reference to Exhibit 3.2 to Vornado Realty L.P.'s Current Report on Form 8-K (File No. 000-22685), filed on June 27, 2007
- 3.42 -Thirty-Ninth Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of June 28, 2007 *
 Incorporated by reference to Exhibit 3.3 to Vornado Realty L.P.'s Current Report on Form 8-K (File No. 000-22685), filed on June 27, 2007
- 3.43 -Fortieth Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of June 28, 2007 Incorporated by *
 reference to Exhibit 3.4 to Vornado Realty L.P.'s Current Report on Form 8-K (File No. 000-22685), filed on June 27, 2007
- 3.44 -Forty-First Amendment to Second Amended and Restated Agreement of Limited Partnership, dated as of March 31, 2008 *
 Incorporated by reference to Exhibit
 3.44 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended
 March 31, 2008 (file No. 001-11954), filed on May 6, 2008
- 4.1 -Indenture and Servicing Agreement, dated as of March 1, 2000, among Vornado Finance LLC, LaSalle Bank National Association, *
 ABN Amro Bank N.V. and Midland Loan Services, Inc. - Incorporated by reference to Exhibit 10.48 to Vornado Realty Trust's
 Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 001-11954), filed on March 9, 2000
- 4.2 -Indenture, dated as of June 24, 2002, between Vornado Realty L.P. and The Bank of New York, as Trustee - Incorporated by *
 reference to Exhibit 4.1 to Vornado Realty L.P.'s Current Report on Form 8-K (File No. 000-22685), filed on June 24, 2002
- 4.3 -Indenture, dated as of November 25, 2003, between Vornado Realty L.P. and The Bank of New York, as Trustee - Incorporated by *
 reference to Exhibit 4.10 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended June 30, 2005 (File No.
 001-11954), filed on April 28, 2005
- 4.4 -Indenture, dated as of November 20, 2006, among Vornado Realty Trust, as Issuer, Vornado Realty L.P., as Guarantor and The Bank *
 of New York, as Trustee Incorporated by reference to Exhibit 4.1 to Vornado Realty Trust's Current Report on Form 8-K (File No.
 001-11954), filed on November 27, 2006

Certain instruments defining the rights of holders of long-term debt securities of Vornado Realty Trust and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Vornado Realty Trust hereby undertakes to furnish to the Securities and Exchange Commission, upon request, copies of any such instruments.

- 10.1** -Vornado Realty Trust's 1993 Omnibus Share Plan - Incorporated by reference to Exhibit 4.1 to Vornado Realty Trust's Registration *
 Statement on Form S-8 (File No. 331-09159), filed on July 30, 1996
- 10.2** -Vornado Realty Trust's 1993 Omnibus Share Plan, as amended - Incorporated by reference to Exhibit 4.1 to Vornado Realty Trust's *
 Registration Statement on Form S-8 (File No. 333-29011), filed on June 12, 1997
- 10.3 -Master Agreement and Guaranty, between Vornado, Inc. and Bradlees New Jersey, Inc. dated as of May 1, 1992 - Incorporated by *
 reference to Vornado, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 1992 (File No. 001-11954), filed May 8,
 1992
- 10.4 -Registration Rights Agreement between Vornado, Inc. and Steven Roth, dated December 29, 1992 - Incorporated by reference to *
 Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 001-11954), filed February 16,
 1993

* Incorporated by reference.

** Management contract or compensatory agreement.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

- 10.5 - Stock Pledge Agreement between Vornado, Inc. and Steven Roth dated December 29, 1992 - Incorporated by reference to Vornado, Inc. s Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 001-11954), filed February 16, 1993 *
- 10.6 - Management Agreement between Interstate Properties and Vornado, Inc. dated July 13, 1992 - Incorporated by reference to Vornado, Inc. s Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 001-11954), filed February 16, 1993 *
- 10.7 ** - Employment Agreement, dated as of April 15, 1997, by and among Vornado Realty Trust, The Mendik Company, L.P. and David R. Greenbaum - Incorporated by reference to Exhibit 10.4 to Vornado Realty Trust s Current Report on Form 8-K (File No. 001-11954), filed on April 30, 1997
- 10.8 - Consolidated and Restated Mortgage, Security Agreement, Assignment of Leases and Rents and Fixture Filing, dated as of March 1, 2000, between Entities named therein (as Mortgagors) and Vornado (as Mortgagee) - Incorporated by reference to Exhibit 10.47 to Vornado Realty Trust s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 001-11954), filed on March 9, 2000
- 10.9 ** - Promissory Note from Steven Roth to Vornado Realty Trust, dated December 23, 2005 - Incorporated by reference to Exhibit 10.15 to Vornado Realty Trust Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-11954), filed on February 28, 2006
- 10.10 ** - Letter agreement, dated November 16, 1999, between Steven Roth and Vornado Realty Trust - Incorporated by reference to Exhibit 10.51 to Vornado Realty Trust s Annual Report on Form 10-K for the year ended December 31, 1999 (File No. 001-11954), filed on March 9, 2000
- 10.11 - Agreement and Plan of Merger, dated as of October 18, 2001, by and among Vornado Realty Trust, Vornado Merger Sub L.P., Charles E. Smith Commercial Realty L.P., Charles E. Smith Commercial Realty L.L.C., Robert H. Smith, individually, Robert P. Kogod, individually, and Charles E. Smith Management, Inc. - Incorporated by reference to Exhibit 2.1 to Vornado Realty Trust s Current Report on Form 8-K (File No. 001-11954), filed on January 16, 2002 *
- 10.12 - Registration Rights Agreement, dated January 1, 2002, between Vornado Realty Trust and the holders of the Units listed on Schedule A thereto - Incorporated by reference to Exhibit 10.2 to Vornado Realty Trust s Current Report on Form 8-K/A (File No. 1-11954), filed on March 18, 2002 *
- 10.13 - Tax Reporting and Protection Agreement, dated December 31, 2001, by and among Vornado, Vornado Realty L.P., Charles E. Smith Commercial Realty L.P. and Charles E. Smith Commercial Realty L.L.C. - Incorporated by reference to Exhibit 10.3 to Vornado Realty Trust s Current Report on Form 8-K/A (File No. 1-11954), filed on March 18, 2002
- 10.14 ** - Employment Agreement between Vornado Realty Trust and Michael D. Fascitelli, dated March 8, 2002 - Incorporated by reference to Exhibit 10.7 to Vornado Realty Trust s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002 (File No. 001-11954), filed on May 1, 2002 *
- 10.15 ** - First Amendment, dated October 31, 2002, to the Employment Agreement between Vornado Realty Trust and Michael D. Fascitelli, dated March 8, 2002 - Incorporated by reference to Exhibit 99.6 to the Schedule 13D filed by Michael D. Fascitelli on November 8, 2002 *

* Incorporated by reference.

** Management contract or compensatory agreement.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

- 10.16 -Registration Rights Agreement, dated as of July 21, 1999, by and between Vornado Realty Trust and the holders of Units listed on Schedule A thereto - Incorporated by reference to Exhibit 10.2 to Vornado Realty Trust's Registration Statement on Form S-3 (File No. 333-102217), filed on December 26, 2002 *
- 10.17 -Form of Registration Rights Agreement between Vornado Realty Trust and the holders of Units listed on Schedule A thereto - Incorporated by reference to Exhibit 10.3 to Vornado Realty Trust's Registration Statement on Form S-3 (File No. 333-102217), filed on December 26, 2002 *
- 10.18 -Amendment to Real Estate Retention Agreement, dated as of July 3, 2002, by and between Alexander's, Inc. and Vornado Realty L.P. - Incorporated by reference to Exhibit 10(i)(E)(3) to Alexander's Inc.'s Quarterly Report for the quarter ended June 30, 2002 (File No. 001-06064), filed on August 7, 2002 *
- 10.19 -59th Street Real Estate Retention Agreement, dated as of July 3, 2002, by and between Vornado Realty L.P., 731 Residential LLC and 731 Commercial LLC - Incorporated by reference to Exhibit 10(i)(E)(4) to Alexander's Inc.'s Quarterly Report for the quarter ended June 30, 2002 (File No. 001-06064), filed on August 7, 2002 *
- 10.20 -Amended and Restated Management and Development Agreement, dated as of July 3, 2002, by and between Alexander's, Inc., the subsidiaries party thereto and Vornado Management Corp. - Incorporated by reference to Exhibit 10(i)(F)(1) to Alexander's Inc.'s Quarterly Report for the quarter ended June 30, 2002 (File No. 001-06064), filed on August 7, 2002 *
- 10.21 -59th Street Management and Development Agreement, dated as of July 3, 2002, by and between 731 Residential LLC, 731 Commercial LLC and Vornado Management Corp. - Incorporated by reference to Exhibit 10(i)(F)(2) to Alexander's Inc.'s Quarterly Report for the quarter ended June 30, 2002 (File No. 001-06064), filed on August 7, 2002 *
- 10.22 -Amendment dated May 29, 2002, to the Stock Pledge Agreement between Vornado Realty Trust and Steven Roth dated December 29, 1992 - Incorporated by reference to Exhibit 5 of Interstate Properties' Schedule 13D/A dated May 29, 2002 (File No. 005-44144), filed on May 30, 2002 *
- 10.23** -Vornado Realty Trust's 2002 Omnibus Share Plan - Incorporated by reference to Exhibit 4.2 to Vornado Realty Trust's Registration Statement on Form S-8 (File No. 333-102216) filed December 26, 2002 *
- 10.24 -Registration Rights Agreement by and between Vornado Realty Trust and Bel Holdings LLC dated as of November 17, 2003 - Incorporated by reference to Exhibit 10.68 to Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 001-11954), filed on March 3, 2004 *
- 10.25 -Registration Rights Agreement, dated as of May 27, 2004, by and between Vornado Realty Trust and 2004 Realty Corp. - Incorporated by reference to Exhibit 10.75 to Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 001-11954), filed on February 25, 2005 *
- 10.26 -Registration Rights Agreement, dated as of December 17, 2004, by and between Vornado Realty Trust and Montebello Realty Corp. - Incorporated by reference to Exhibit 10.76 to Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 001-11954), filed on February 25, 2005 *

* Incorporated by reference.

** Management contract or compensatory agreement.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

- 10.27** - Form of Stock Option Agreement between the Company and certain employees Incorporated by reference to Exhibit 10.77 to Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 001-11954), filed on February 25, 2005 *
- 10.28** - Form of Restricted Stock Agreement between the Company and certain employees Incorporated by reference to Exhibit 10.78 to Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 001-11954), filed on February 25, 2005 *
- 10.29** - Employment Agreement between Vornado Realty Trust and Sandeep Mathrani, dated February 22, 2005 and effective as of January 1, 2005 Incorporated by reference to Exhibit 10.76 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2005 (File No. 001-11954), filed on April 28, 2005 *
- 10.30 - Contribution Agreement, dated May 12, 2005, by and among Robert Kogod, Vornado Realty L.P. and certain Vornado Realty Trust affiliates Incorporated by reference to Exhibit 10.49 to Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 001-11954), filed on February 28, 2006 *
- 10.31** - Amendment, dated March 17, 2006, to the Vornado Realty Trust Omnibus Share Plan Incorporated by reference to Exhibit 10.50 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 (File No. 001-11954), filed on May 2, 2006 *
- 10.32** - Form of Vornado Realty Trust 2006 Out-Performance Plan Award Agreement, dated as of April 25, 2006 Incorporated by reference to Exhibit 10.1 to Vornado Realty Trust's Form 8-K (File No. 001-11954), filed on May 1, 2006 *
- 10.33** - Form of Vornado Realty Trust 2002 Restricted LTIP Unit Agreement Incorporated by reference to Vornado Realty Trust's Form 8-K (File No. 001-11954), filed on May 1, 2006 *
- 10.34 - Revolving Credit Agreement, dated as of June 28, 2006, among the Operating Partnership, the banks party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A. and Citicorp North America, Inc., as Syndication Agents, Deutsche Bank Trust Company Americas, Lasalle Bank National Association, and UBS Loan Finance LLC, as Documentation Agents and Vornado Realty Trust Incorporated by reference to Exhibit 10.1 to Vornado Realty Trust's Form 8-K (File No. 001-11954), filed on June 28, 2006 *
- 10.35** - Amendment No.2, dated May 18, 2006, to the Vornado Realty Trust Omnibus Share Plan Incorporated by reference to Exhibit 10.53 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (File No. 001-11954), filed on August 1, 2006 *
- 10.36** - Amended and Restated Employment Agreement between Vornado Realty Trust and Joseph Macnow dated July 27, 2006 Incorporated by reference to Exhibit 10.54 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 (File No. 001-11954), filed on August 1, 2006 *
- 10.37 - Guaranty, made as of June 28, 2006, by Vornado Realty Trust, for the benefit of JP Morgan Chase Bank Incorporated by reference to Exhibit 10.53 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 001-11954), filed on October 31, 2006 *
- 10.38** - Amendment, dated October 26, 2006, to the Vornado Realty Trust Omnibus Share Plan Incorporated by reference to Exhibit 10.54 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 001-11954), filed on October 31, 2006 *

* Incorporated by reference.

** Management contract or compensatory agreement.

Edgar Filing: VORNADO REALTY TRUST - Form 10-Q

- 10.39** -Amendment to Real Estate Retention Agreement, dated January 1, 2007, by and between Vornado Realty L.P. and Alexander's Inc. *
Incorporated by reference to Exhibit 10.55 to Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-11954), filed on February 27, 2007
- 10.40** -Amendment to 59th Street Real Estate Retention Agreement, dated January 1, 2007, by and among Vornado Realty L.P., 731 Retail *
One LLC, 731 Restaurant LLC, 731 Office One LLC and 731 Office Two LLC. Incorporated by reference to Exhibit 10.56 to
Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 2006 (File No. 001-11954), filed on February
27, 2007
- 10.41 -Stock Purchase Agreement between the Sellers identified and Vornado America LLC, as the Buyer, dated as of March 5, 2007 *
Incorporated by reference to Exhibit 10.45 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March
31, 2007 (File No. 001-11954), filed on May 1, 2007
- 10.42** -Employment Agreement between Vornado Realty Trust and Mitchell Schear, as of April 19, 2007 Incorporated by reference to *
Exhibit 10.46 to Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 001-11954),
filed on May 1, 2007
- 10.43 -Revolving Credit Agreement, dated as of September 28, 2007, among Vornado Realty L.P. as borrower, Vornado Realty Trust as *
General Partner, the Banks signatory thereto, each as a Bank, JPMorgan Chase Bank, N.A. as Administrative Agent, Bank of
America, N.A. as Syndication Agent, Citicorp North America, Inc., Deutsche Bank Trust Company Americas, and UBS Loan
Finance LLC as Documentation Agents, and J.P. Morgan Securities Inc. and Bank of America Securities LLC as Lead Arrangers
and Bookrunners. - Incorporated by reference to Exhibit 10.1 to Vornado Realty Trust's Current Report on Form 8-K (File No.
001-11954), filed on October 4, 2007
- 10.44 -Second Amendment to Revolving Credit Agreement, dated as of September 28, 2007, by and among Vornado Realty L.P. as *
borrower, Vornado Realty Trust as General Partner, the Banks listed on the signature pages thereof, and J.P. Morgan Chase Bank
N.A., as Administrative Agent for the Banks - Incorporated by reference to Exhibit 10.2 to Vornado Realty Trust's Current Report on
Form 8-K (File No. 001-11954), filed on October 4, 2007
- 10.45** -Form of Vornado Realty Trust 2002 Omnibus Share Plan Non-Employee Trustee Restricted LTIP Unit Agreement Incorporated by*
reference to Exhibit 10.45 to Vornado Realty Trust's Annual Report on Form 10-K for the year ended December 31, 2007 (File No.
001-11954) filed on February 26, 2008
- 10.46** -Form of Vornado Realty Trust 2008 Out-Performance Plan Award Agreement Incorporated by reference to Exhibit 10.46 to *
Vornado Realty Trust's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 001-11954) filed on May 6,
2008
- 15.1 -Letter Regarding Unaudited Interim Financial Information
- 31.1 -Rule 13a-14 (a) Certification of the Chief Executive Officer
- 31.2 -Rule 13a-14 (a) Certification of the Chief Financial Officer
- 32.1 -Section 1350 Certification of the Chief Executive Officer
- 32.2 -Section 1350 Certification of the Chief Financial Officer
-
- * Incorporated by reference.
** Management contract or compensatory agreement.