BIOLARGO, INC.
Form 10KSB/A
March 10, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

AMENDMENT NO. 1 to

FORM 10-KSB

(Mark One)

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

For the Fiscal Year ended December 31, 2006

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: 000-19709

BIOLARGO, INC.

(Name of Small Business Issuer in its Charter)

Delaware	**65-0159115**
(State or other jurisdiction	**(IRS Employer**
of incorporation or organization)	**Identification No.)**

2603 Main Street, Suite 1155, Irvine, CA 92614

(Address of principal executive offices, Zip Code)

Issuer s telephone number, including area code: (949) 235-8062

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

Common Stock, $0.00067 par value

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) been subject to such filing requirements for the past 90 days. Yes x No ¨

Check if disclosure of delinquent filers in response to Item 405 of Regulation S-B is not contained in this form, and no disclosure will be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Issuer s revenue for its most recent fiscal year: $ -0-

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was sold, or the average bid and asked price of such common equity, as of May 1, 2007 was $8,465,212.

The number of shares outstanding of the issuer s class of common equity as of May 1, 2007 was 39,355,166.

Transitional Small Business Disclosure Format (check one): Yes ¨ No x

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GENERAL NOTE

THIS AMENDMENT NO. 1 TO THE ANNUAL REPORT ON FORM 10-KSB FOR THE YEAR ENDED DECEMBER 31, 2006, OF BIOLARGO, INC. (THE COMPANY) IS BEING FILED FOR THE FOLLOWING PURPOSES: (1) TO RECALCULATE THE VALUE OF CERTAIN WARRANTS ISSUED BY THE COMPANY AS PART OF CERTAIN PRIVATE OFFERINGS OF THE COMPANY S SECURITIES WHICH GIVES RISE TO ADDITIONAL INTEREST EXPENSE; AND (2) TO ELIMINATE PRO FORMA FINANCIAL INFORMATION PREVIOUSLY PRESENTED, BASED ON THE COMPANY S DETERMINATION THAT SUCH PRESENTATION IS NOT REQUIRED.

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PART I

ITEM 1. DESCRIPTION OF BUSINESS

GENERAL NOTE REGARDING REFERENCES TO COMMON STOCK

On March 19, 2007, BioLargo, Inc., formerly known as NuWay Medical, Inc., a Delaware corporation (BioLargo), completed a 1-for-25 reverse split of its common stock outstanding as of the close of business on such date (the Reverse Split). Unless specifically stated otherwise, all references in this Annual Report on Form 10-KSB (the Annual Report) to BioLargo s common stock are stated on a post-reverse split basis.

USE OF FORWARD LOOKING STATEMENTS IN THIS REPORT

This Annual Report contains forward-looking statements. These forward-looking statements include, but are not limited to, predictions regarding:

- our business plan;
- the commercial viability of our technology and products incorporating our technology;
- the effects of competitive factors on our technology and products incorporating our technology;
- expenses we will incur in operating our business;
- our liquidity and sufficiency of existing cash;
- the success of our financing plans; and
- the outcome of pending or threatened litigation.

You can identify these and other forward-looking statements by the use of words such as may , will , expects , anticipates , believes , estimate continues , or the negative of such terms, or other comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth below under the heading Risk Factors . All forward-looking statements included in this document are based on information available to us on the date hereof. We assume no obligation to update any forward-looking statements.

The information contained in this Annual Report is as of December 31, 2006, unless expressly stated otherwise.

As used in this Report, the term Company refers to BioLargo and its wholly-owned subsidiaries, BioLargo Life Technologies, Inc., a California corporation, which is sometimes referred to separately as BLTI, and NuWay Sports, LLC, a California limited liability company.

Introduction

By leveraging our suite of patented and patent-pending intellectual property, which we refer to as the BioLargo technology, our business strategy is to harness and deliver nature s best disinfectant iodine in a safe, efficient, environmentally sensitive and cost-effective manner. Our BioLargo technology works by combining minerals with water from any source and delivering molecular iodine on demand, in controlled dosages, in order to balance efficacy of disinfectant performance with concerns about toxicity. When our BioLargo technology is incorporated in absorbent products, they also experience increased holding power and may experience increased absorption.

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Our BioLargo technology creates a value-added proposition to existing products and can be used to create new products. Our BioLargo technology can be incorporated into absorbents, washes and sprays, and into various products and applications across multiple industry verticals. Our BioLargo technology has the potential to replace other disinfectants such as chlorines and bromines, which may be harmful to the environment. Our business model is to license our BioLargo technology to others, rather than to manufacture our own products.

We have been engaged in the research and product development of the BioLargo technology since July 2005, when we entered into a letter of intent with the inventor of the BioLargo technology, Kenneth Reay Code, who is now a director, our Chief Technology Officer and our principal stockholder. Between December 2006 and April 2007, we operated under a Marketing and Licensing Agreement with Mr. Code and a company he controls, IOWC Technologies, Inc. (IOWC). In April 2007, we completed the acquisition of the BioLargo technology from IOWC.

Our current focus is to develop opportunities to license our BioLargo technology to others in various vertical markets. We do not currently intend to manufacture our own products, although we will contract with others to manufacture the chemicals and minerals that comprise the BioLargo technology.

The Company had no continuing business operations as of December 31, 2006 and until the completion of the acquisition of the BioLargo technology on April 30, 2007, and operated as a public shell prior to such date.

The Company was initially organized as Repossession Auction, Inc. under the laws of the State of Florida in 1989. In 1991, the Company merged into a Delaware corporation bearing the same name. In 1994, the Company s name was changed to Latin American Casinos, Inc. to reflect its focus on the gaming and casino business in South and Central America, and in 2001 the Company changed its name to NuWay Energy, Inc. to reflect its new emphasis on the oil and gas development industry. During October 2002, the Company s name was changed to NuWay Medical, Inc. coincident with the divestiture of its non-medical assets and the retention of new management. In March 2007, in connection with the approval by our stockholders of the acquisition of the BioLargo technology, we changed our name to BioLargo, Inc.

The Company s executive offices are located at 2603 Main Street, Suite 1155, Irvine, California 92614 and its telephone number at that location is (949) 235-8062. Our website is www.biolargo.com. The information on our website is not, and shall not be deemed to be, a part of this Report or incorporated by reference into this or any other filing we make with the Securities and Exchange Commission (the SEC).

Recent Developments

On April 30, 2007, we completed the acquisition of the BioLargo technology. For more detailed information, please see Transactions Involving the BioLargo Technology and Our Business below.

At such time, we ceased to be a shell corporation. For more detailed information, please see Item 8B, Other Information below.

In March 2007, our stockholders approved a name change, the Reverse Split and a recapitalization of our stock. For more detailed information, please see Recent Corporate Developments below.

Transactions Involving the BioLargo Technology

Leading up to the completion of the acquisition of the BioLargo technology in April 2007, the Company engaged in several transactions with Mr. Code and IOWC. Mr. Code is the sole stockholder and sole director of IOWC.

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Letter of Intent

In July 2005, the Company entered into a letter of intent (LOI) with IOWC. The LOI set out the terms for the acquisition of certain assets of IOWC consisting of certain intellectual property, including two United States patent and two license and/or distributor agreements pursuant to which IOWC had licensed certain of its technologies for use in products designed for distribution in the food, medical and biohazardous material transportation industries. In connection with the transactions contemplated by the LOI, the Company agreed to issue up to 51% of its common stock to IOWC. The LOI provided that the transactions contemplated by the LOI would be completed pursuant to the terms of an asset purchase agreement as well as a research and development agreement. In addition, the LOI required certain stockholders approvals as a condition to the closing of the transactions contemplated by the LOI including approval of the issuance of the shares of the Company s common stock to IOWC, a reverse stock split and an increase in the authorized capital stock of the Company.

As the parties worked toward preparing the documentation called for by LOI and as the Company began to prepare the proxy materials needed for its stockholders meeting, it became increasingly clear to the parties that the length of time and the costs involved in preparing documentation for a stockholders meeting would likely jeopardize the chances that the transactions contemplated by the LOI could be completed in a manner benefiting both parties. Accordingly, in late 2005 the parties began to explore alternative strategies that would enable them to begin to realize the benefits of the transactions contemplated by the LOI while at the same time allow the Company to call a meeting of its stockholders for the purpose of approving the issuance of shares of its common stock in connection with the acquisition of the BioLargo technology.

Marketing and Licensing Agreement

In furtherance of the proposed transactions with IOWC, on December 31, 2005, the Company entered into the Marketing and Licensing Agreement (the M&L Agreement) with IOWC and Mr. Code.

Pursuant to the M&L Agreement, BLTI acquired certain rights to develop, market, sell and distribute products that were developed, and were then in development, by IOWC relating to the BioLargo technology.

Licenses Granted to BLTI. Pursuant to the terms of the M&L Agreement, IOWC granted to BLTI a license, with respect to the BioLargo technology, to further develop the technology, to further develop existing and new products based on that technology, and to produce, market, sell and distribute any such products, through its own means, or by contract or assignment to third parties or otherwise, including without limitation:

Technology Development Rights. Exclusive worldwide right to expand and improve upon the existing BioLargo technology, to conduct research and development activities based on the BioLargo technology, and to contract with third parties for such research and development activities; and any improvements on the BioLargo technology, or any new technology resulting such efforts of BLTI, shall be owned solely by BLTI.

Product Development Rights. Exclusive worldwide right to expand and improve upon the existing products incorporating the BioLargo technology, to conduct research and development activities to create new products for market, and to contract with third parties for such research and development activities. Any new products created by BLTI resulting from these efforts shall be owned solely by BLTI.

Marketing Rights. Exclusive right to market, advertise, and promote the BioLargo technology in any market and in any manner it deems commercially reasonable.

Manufacturing Rights. A transferable, worldwide exclusive right to manufacture, or have manufactured, products incorporating the BioLargo technology.

Selling Rights. A transferable, worldwide exclusive right to sell BioLargo technology and products incorporating the BioLargo technology.

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Distribution Rights. A transferable, worldwide exclusive right to inventory and distribute products incorporating the BioLargo technology.

Licensing Rights. A transferable, worldwide exclusive right to license the BioLargo technology to third parties.

Assigned Agreements. Pursuant to the terms of the M&L Agreement, IOWC and Mr. Code also assigned to BLTI its rights and obligations with respect to the following Agreements (collectively, the Assigned Agreements):

Agreement dated October 15, 2004 by and between Kenneth R. Code, IOWC, BioLargo Technologies, Inc., or IOWC s assigns, and Craig Sundheimer and Lloyd M. Jarvis (the Sundheimer Agreement);

Agreement dated January 15, 2005 by and between Kenneth R. Code, IOWC and Food Industry Technologies, Inc.; and

Letter of Intent dated November 15, 2004 by and between Kenneth R. Code and IOWC and GTS Research, Inc.

Pursuant to the terms of the M&L Agreement, the Company is entitled to receive any and all royalties, payments, license fees, and other consideration generated by the Assigned Agreements as of January 1, 2006. As part of the assignment, IOWC agreed to transfer the 20% interest it acquired in BioLargo, LLC pursuant to the Sundheimer Agreement. In October 2006, the Company terminated the Sundheimer Agreement, for cause. Subsequently, the Company and IOWC agreed that IOWC s 20% interest in BioLargo, LLC would not be transferred by IOWC to BLTI, but that BLTI would have the option to acquire such 20% interest for nominal consideration for seven years (the Option Agreement).

Consulting Agreement

On June 20, 2006, the Company entered into a Consulting Agreement with Mr. Code (the Consulting Agreement). Pursuant to the Consulting Agreement, the Company engaged the services of Mr. Code, effective January 1, 2006, to advise the Company in research and development and technical support, and to provide other services and assistance to the Company in matters relating to the BioLargo technology and the rights acquired by the Company in the M&L Agreement.

The Consulting Agreement contained provisions requiring Mr. Code to devote substantially all of his business time to the Company; prohibiting Mr. Code from directly or indirectly engaging in any business activity that would be competitive with the business of the Company or its affiliates, including BLTI; providing that during the term of the Consulting Agreement and for one year post-termination, Mr. Code will not solicit the Company s employees or customers; and other standard provisions typical for a consulting agreement. The Consulting Agreement also provided that the Company retains the exclusive right to use or distribute all creations which may be created during the term of the Consulting Agreement. The Consulting Agreement, as amended on December 20, 2006 and as of March 30, 2007, terminated when the Company entered into an Employment Agreement with Mr. Code on April 30, 2007. During the term of the Consulting Agreement, Mr. Code was paid $15,400 per month, prorated for partial months, and was entitled to reimbursement for authorized business expenses incurred in the performance of his duties.

Research and Development Agreement

On August 11, 2006, the Company and BLTI entered into a Research and Development Agreement with IOWC and Mr. Code (the R&D Agreement), which agreement was amended on August 14, 2006. Pursuant to the R&D Agreement, IOWC and Mr. Code agreed to provide research and development services and expertise in the field of disposable absorbent products to the Company.

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The R&D Agreement provides that the Company will own, and the Company will have the exclusive right to commercially exploit, the intellectual property developed, created, generated, contributed to or reduced to practice pursuant to the R&D Agreement. In addition, IOWC and Mr. Code have agreed that during the term of the R&D Agreement and for one year after termination they will not compete with, and will not provide services to any person or entity which competes with, any aspect of the Company s business.

During the term of the R&D Agreement, but only after mutually acceptable research facilities are established for the performance of IOWC s services (as of this date, no acceptable research facilities have been established), IOWC shall be paid (i) a fee of $5,500 per month for each month during which no services are being performed pursuant to the R&D Agreement to offset for laboratory and/or office and IOWC employee expenses and (ii) such additional amounts as the parties may agree in connection with specific research projects conducted pursuant to the R&D Agreement.

As further consideration to Mr. Code to enter into the R&D Agreement, on August 14, 2006 the Company issued to Mr. Code 620,637 shares of its common stock, as adjusted to reflect the Reverse Split (the Code Stock), or approximately 19.9% of the Company s then issued and outstanding common stock immediately following the issuance of the Code Stock.

In connection with the completion of the acquisition of the BioLargo technology in April 2007, the M&L Agreement, Consulting Agreement and R&D Agreement were terminated.

Acquisition of the BioLargo Technology

On April 30, 2007, the Company completed the acquisition of the BioLargo technology. The following summary of the Asset Purchase Agreement dated as of April 30, 2007 between the Company, IOWC and Mr. Code (the Asset Purchase Agreement) is qualified in its entirety by reference to the complete terms and conditions contained in the Asset Purchase Agreement itself.

Acquisition of Assets; Purchase Price. Pursuant to the terms of the Asset Purchase Agreement, Mr. Code and IOWC sold, transferred and assigned to the Company all of their rights, title and interests to:

- United States Patent Number 6,146,725, relating to an absorbent composition to be used in the transport of specimens of bodily fluids; and United States Patent Number 6,328,929, relating to method of delivering disinfectant in an absorbent substrate; and related patent applications and national filings;

- all proprietary knowledge, trade secrets, confidential information, computer software and licenses, formulae, designs and drawings, quality control data, processes (whether secret or not), methods, inventions and other similar know-how or rights relating to or arising out of the patents;

- all license and distribution agreements to which either Mr. Code or IOWC is presently a party; and

- certain records,

in exchange for 22,139,012 shares of the Company s common stock (the IOWC Shares). Mr. Code and certain other co-inventors of intellectual property had previously assigned all of their right title and interest to six patent applications filed with the United States Patent and Trademark Office (USPTO) and two additional patent applications filed under the International Patent Cooperation Treaty (PCT). The M&L Agreement, R&D Agreement and Consulting Agreement were terminated concurrent with the closing of the Asset Purchase Agreement. The IOWC Shares were issued to IOWC at the Closing. Such shares constitute full payment for the obligations of the Company owed to Mr. Code and IOWC for the license rights, assigned agreements, patents and related intellectual property acquired by the Company from Mr. Code and IOWC.

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Representations and Warranties. As part of the Asset Purchase Agreement, Mr. Code and IOWC, jointly and severally, have made certain representations and warranties to the Company with respect to, among other things:

- good , valid and marketable title to the assets being sold free and clear of any and all material liens and encumbrances;
- absence of the need for third party consents;
- further assurances to take action to vest good title in the name of the Company
- sufficiency of the assets for the future conduct of business by the Company;
- intellectual property matters;
- the absence of litigation and proceedings;
- compliance with laws; and
- limitations on the resale of the IOWC Shares in accordance with securities laws

The Asset Purchase Agreement also contains additional representations and warranties of Mr. Code and/or IOWC, and of the Company, standard for asset purchase transactions required to be publicly disclosed by reporting companies.

The representations and warranties of the parties contained in the Asset Purchase Agreement will survive for four years after the closing at which time they will expire.

Indemnification. Under the Asset Purchase Agreement, IOWC and Mr. Code have agreed, jointly and severally, to indemnify the Company and each of its officers, directors, employees, agents and affiliates, and each of their successors and assigns from and against any and all costs, losses, claims, liabilities, fines, penalties, consequential damages (other than lost profits), and expenses (including interest which may be imposed in connection therewith and court costs and reasonable fees and disbursements of counsel) incurred in connection with, arising out of, resulting from or incident to:

- liabilities or claims arising out of the assets or the business of IOWC before the closing;
- liabilities or claims after the closing relating to IOWC or Mr. Code;
- breach of the representations or warranties made by IOWC or Mr. Code;
- default in any agreements made by IOWC or Mr. Code;

- taxes of any kind arise out of or result from the transactions contemplated by the Asset Purchase Agreement; and

- liabilities or claims relating to employee matters.

The Company has agreed to indemnify IOWC and Mr. Code and IOWC s officers, directors, employees, agents and affiliates, and each of their successors and assigns from and against any and all costs, losses, claims, liabilities, fines, penalties, consequential damages (other than lost profits), and expenses (including interest which may be imposed in connection therewith and court costs and reasonable fees and disbursements of counsel) incurred in connection with, arising out of, resulting from or incident to:

- breach of the representations and warranties made by the Company; and

- default in any agreement made by the Company.

The Asset Purchase Agreement provides the mechanism by which the parties must notify each other of any claims, the methods for resolution of such and requires the parties to arbitrate any unresolved claims.

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Miscellaneous. The Asset Purchase Agreement also contains customary provisions relating to governing law, assignment of rights and obligations, attorneys fees, force majeure and other matters standard for asset purchase transactions.

Code Employment Agreement

As part of the completion of the acquisition of the BioLargo technology, the Company entered into an Employment Agreement dated as of April 30, 2007 with Mr. Code (the Code Employment Agreement). The Consulting Agreement with Mr. Code dated June 20, 2006 as amended as of December 20, 2006 and as of March 30, 2007 was terminated when the Company entered into the Employment Agreement with Mr. Code.

The Code Employment Agreement provides that Mr. Code will serve as the Chief Technology Officer of the Company, and receive (i) base compensation of $184,000 annually (with an automatic 10% annual increase); and (ii) a bonus in such amount as the Compensation Committee of the Board of Directors of the Company (the Compensation Committee) may determine from time to time. In addition, Mr. Code will be eligible to participate in incentive plans, stock option plans, and similar arrangements as determined by the Company s Board of Directors. When such benefits are made available to the senior employees of the Company, Mr. Code is also eligible to receive heath insurance premium payments for himself and his immediate family, a car allowance of $800 per month, paid vacation of four weeks per year plus an additional two weeks per year for each full year of service during the term of the agreement up to a maximum of ten weeks per year, life insurance equal to three times his base salary and disability insurance. The Code Employment Agreement has a term of five years, unless earlier terminated in accordance with its terms.

The Code Employment Agreement also provides that Mr. Code s employment may be terminated by the Company due to disability, for cause or without cause. Disability as used in the Employment Agreement means physical or mental incapacity or illness rendering Mr. Code unable to perform his duties on a long-term basis (i) as evidenced by his failure or inability to perform his duties for a total of 120 days in any 360 day period, or (ii) as determined by an independent and licensed physician whom Company selects, or (iii) as determined without recourse by the Company s disability insurance carrier. If Mr. Code s employment is terminated for cause he will be eligible to receive his accrued base compensation and vacation compensation through the date of termination. If Mr. Code s employment is terminated without cause, then he will be eligible to receive the greater of (i) one year s compensation plus an additional one half year for each year of service since the effective date of the employment agreement or (ii) one year s compensation plus an additional one half year for each year remaining in the term of the agreement.

The Code Employment Agreement requires Mr. Code to keep certain information confidential, not to solicit customers or employees of the Company or interfere with any business relationship of the Company, and to assign all inventions made or created during the term of the Code Employment Agreement as work made for hire .

In connection with the closing of the acquisition of the BioLargo technology and the execution of the Code Employment Agreement, Mr. Code was also elected to the Board of both BioLargo and BLTI.

Calvert Employment Agreement

In connection with the closing of the acquisition of the BioLargo technology, the Company also entered into a new employment agreement with Dennis Calvert, the Company s President and Chief Executive Officer. Please see Part Two, Item 8B, Other Information .

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Our Business

BioLargo Technology

Mr. Code and IOWC have developed the BioLargo technology, consisting of certain intellectual property including two U.S. patents (U.S. Patent Numbers 6146725 and 6328929), relating to a process whereby disinfecting chemistry is incorporated into absorbent materials, liquids, powders, tablets or other delivery methods, that can be then incorporated into products in multiple industries. Six additional patent applications have recently been filed with the USPTO and two additional patent applications have recently been filed with the PCT relating to this technology, all of which have been assigned to the Company.

The BioLargo technology works by placing inorganic compounds (similar in composition and dosages to what is used in everyday common vitamins) into absorbent products like bed pads, blood pads, diapers, surgical drapes, transportation packages for protective liners, wound dressings, bandages and other delivery methods. It can also be incorporated into sprays, washes, and other liquid and gaseous media for various applications. It can be delivered in various forms as a particle treatment for materials incorporated into products or as a material composition for direct application for targeted applications. Our continuing efforts related to new product development, product improvements and research and development efforts will require substantial additional capital. However the Company cannot give any assurance that adequate capital will be available, if at all, or will be available on favorable terms.

Management believes that the BioLargo technology generally offers the following beneficial features, among others:

Environmentally Friendly The BioLargo technology features a scientifically proven effective disinfectant, iodine, which is recognized as part of nature s natural cycle of sanitization.

Inorganic Solution The use of iodine in the BioLargo technology is strategically important because iodine is generally considered to be the most effective disinfecting solution, covering a broad range of materials upon which it is effective. It is also an inorganic solution, so that organic microbes are not known to be able to develop an acquired resistance to its killing power.

Disinfection The chemical composition of the BioLargo technology incorporated into products deploys an additive germ killing strategy, that includes a flashing of iodine (the scientifically recognized gold standard by which all disinfecting strategies are compared) and lowers PH levels, which creates an acidic environment, oxidation, and flocculation (or a binding reaction to lock in the microbes).

Increased Holding Power The BioLargo technology can increase significantly the holding power of absorbent material, depending on product configuration.

Disposal It renders contaminated or infectious material safe to handle.

Bio-Degradable The byproduct of the chemical reaction is bio-degradable.

Generally Regarded as Safe (GRAS) The actual chemicals used, as well as the byproduct of the chemical reaction, in the BioLargo technology, are understood by the United States Food & Drug Administration (FDA) and the scientific community generally as non-toxic and safe, when delivered within a range of dosages prescribed by the FDA.

Price The cost of raw materials is not expected to add significantly to the cost of production of products incorporating the BioLargo technology. Additionally, we believe that the incorporation of the BioLargo technology into absorbent products will offer those products a price advantage over competing absorbent products by virtue of their increased performance, namely their increased holding power, absorbency and anti-microbial capabilities, which may also reduce the amount of absorbent materials required to be used in product production to maintain acceptable performance levels. We further believe that the use of the BioLargo technology in non-absorbent applications will be less expensive that iodine alternatives, such as chlorines and bromines.

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We intend to license the BioLargo technology to others, and possibly develop certain products ourselves, for use in several vertical markets. We believe that the BioLargo technology will enable us to address four precautions containment, isolation, neutralization and disposal against disease transmission as established by the Center for Disease Control (the CDC). The BioLargo technology has been reviewed and validated in several third party studies.

We believe that the primary initial markets for the BioLargo technology are likely to be:

- water and soil treatment and remediation
- medical products
- packaging for blood and bio-hazardous material transport
- meat and poultry packing

We plan to pursue our primary revenues from licensing the BioLargo technology, although subject to adequate financing, we may also produce our own products. Subject to regulatory compliance where applicable, the BioLargo technology is presently available for incorporation into certain products, including absorbent pads and materials to be used for clean up of or as a precautionary measure from spills of liquids, including hazardous materials. We are actively working with manufacturers, other technology developers and potential customers to develop additional products for distribution.

Research and Development

Through IOWC, Mr. Code has been involved in the research and development of the BioLargo technology since 1997. He has participated in the Canadian Federal Scientific Research and Experimental Development program and he was instrumental in the discovery, preparation and filing of the first BioLargo technology patents. He has worked with manufacturers, distributors and suppliers in a wide variety of industries to gain a full appreciation of the potential applications and the methodologies applicable to the BioLargo technology for their manufacture and performance. He continues to research methods and applications to continue to expand the potential uses of the BioLargo technology as well as work to uncover new discoveries that may provide addition commercial applications to help solve real world problems in the field of disinfection.

We are also presently conducting initial research and development on thermal characteristics of material incorporating the BioLargo technology for use in packaging and transport.

We spent $129,522 in 2006 and $0 in 2005 on research and development. See Management s Discussion and Analysis of Financial Condition and Results of Operation Results of Operations for a more complete understanding of our research and development expenses in 2006.

We currently anticipate that research and development costs over the next 12 months could range significantly, between $300,000 and $1,000,000, and will be subject to third-party financing which we will require in order to execute our business plan. Although we are actively pursuing such financing, no such commitment is yet in place. We would invest any such funds primarily on continued testing of the BioLargo technology in certain applications and the development of additional production methods for use of the BioLargo technology in certain applications.

Independent Laboratory and Scientific Testing

The Company works with ATS Labs (ATS) in Eagan, Minnesota, a nationally recognized contract testing laboratory that provides microbiology and virology testing services to the manufacturers and users of antimicrobial products. ATS provides product development support, efficacy testing services and antimicrobial

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process validations to clients who develop products regulated by the Environmental Protection Agency (EPA) and the FDA.

The majority of the efficacy studies performed by ATS are performed under Good Laboratory Practice (GLP) standards for regulatory submissions. GLP standards are federal regulations that define the practices for conducting studies that support the registration of pesticidal products. Compliance with GLP standards involves extensive documentation and assures regulatory authorities that the data submitted are factual, accurate and can be reproduced. Furthermore, these data and results be relied upon by regulatory agencies for making efficacy, safety and risk assessments.

ATS has performed eleven studies for BioLargo since July 2006 to explore the antimicrobial performance of the BioLargo s proprietary technology with various pathogens at a range of dosages and contact times to determine the most effective and economical disinfection/sanitizing application conditions for the BioLargo technology. Additional testing is planned in the future.

In September and October 2006, Jennifer Ayla Jay, Ph.D., an assistant professor in the Civil and Environmental Engineering Department at UCLA, conducted a study of the BioLargo technology for the disinfection of microbially contaminated sand. Suspension testing of the iodine generated by the BioLargo technology in water showed that the BioLargo technology has effective disinfecting capability for contaminated sand. Dr. Jay presented her findings in October 2006 at the National Beaches Conference sponsored by the EPA in collaboration with the Great Lakes Beach Association. The conference provided a national framework for discussion of beach water quality issues, exchange of information, and coordination of efforts in research and decision-making.

Marketing Technology Services in Kalamazoo, Michigan, a company providing product testing and certification to the absorbent materials industry for more than 25 years, performed a series of tests in 2001, and confirmed the absorbency rates and holding power of absorbent material incorporating the BioLargo technology. Absorbency tests were run to measure how much liquid absorbent material incorporating the BioLargo technology would hold. These tests confirmed the rate of absorption by size and weight of absorbent material incorporating the BioLargo technology. Holding capability was determined in what is referred to as a re-wet test, in which previously wetted absorbent material incorporating the BioLargo technology was subjected to pressure to determine how much liquid escaped the material. This test concluded the BioLargo technology increased the holding power of absorbent material as compared with comparable absorbent material not treated with the BioLargo technology.

Ongoing third-party testing is a critical part of our business plan. These efforts can be time consuming and some of these efforts are costly, requiring adequate capital resources to continue such efforts. However the Company cannot give any assurance that adequate capital will be available, if at all, or will be available, if at all, on favorable terms.

Manufacturing

Our current business plan calls for us to license our BioLargo technology, under strict quality control standards, to others for incorporation into existing and newly-created products across numerous industry verticals. Currently, we do not intend to manufacture our own products. We intend to work with manufacturers on a contract-for-hire basis, or on a project-by-project basis with the potential for these manufacturers to create a product supplier relationship for potential licensees of products incorporating the BioLargo technology. These collaborative efforts will focus on design and specifications for production of pre-commercial samples of products and for actual commercial products.

We have an existing non-exclusive business relationship with Aveka, Inc. (Aveka). Aveka assists us in (i) supplying blended material or treated particles, the chemicals we use in the form tablets or powders, and super-absorbent polymer (SAP) beads for incorporation in absorbent material; (ii) blending materials, (iii) particle treatment; (iv) preparing samples of products; and (v) manufacturing and processing specifications for materials and prototypes that incorporate the BioLargo technology. Aveka also assists us in product design and assists in discovery associated with the uses and manufacturing of products associated with our technology. We paid Aveka approximately $75,000 during 2006 for approximately 14 projects they undertook on our behalf.

We intend to use Aveka or other third party manufacturers to produce chemicals such as tablets and powders. Aveka does not produce SAP beads and we intend to use other suppliers of such material. We do not have exclusive arrangements or written agreements with any such manufacturers that we have used to date. We believe that we have several choices for manufacturers of chemicals and are not dependent upon any single manufacturer or source of materials**.** Most of the chemicals we use in the production of the tablets and powders for the BioLargo technology, such as potassium iodide, are not scarce and not subject to price volatility. SAP beads, which are a petrochemical derivative, are generally readily available but have been subject to periodic scarcity and price volatility from time to time during recent years, although prices are relatively stable at present.

Sales and Marketing

Subject to obtaining adequate third-party financing, for which no commitments are yet in place, over at least the next 12 months, we intend to devote a significant part of our resources to sales and marketing of the BioLargo technology to potential licensees. This is a continuation of the initial efforts we undertook during 2006. While specific efforts will vary based on market conditions and opportunities that present themselves from time to time, the following discussion of recent efforts is indicative of the types of efforts we expect to undertake on an ongoing basis.

In April 2006, we engaged Robert Stewart, Ph.D., to serve as the Company s regulatory specialist for required activities involving the EPA and the FDA. During this period, we also focused on establishing relationships with key agents who work on a commission basis to assist us in marketing to large corporations and other organizations. In May 2006, we hired a consultant to assist us on our marketing and sales efforts.

From February through April 2006, we began discussions with five major research universities to further our research for specific applications. In September 2006, we hired UCLA to research applications of the BioLargo technology for beach and soil remediation. An initial report regarding this research was presented in October 2006 at the National Beaches Conference sponsored by the EPA. These various discussions are ongoing and focus on engaging those universities to perform research on the BioLargo technology for soil and sand remediation, animal studies, United States Department of Defense applications, and embedded anti-microbial applications in textiles.

Throughout 2006, we engaged in various efforts to continue testing, developing and pre-marketing products incorporating the BioLargo technology. For example, in January 2006, we contracted with a third party manufacturer to produce samples for presentation purposes of absorbent pads. We also engaged a particle, formulations, blending and specialty manufacturing company to work with us in product development and sample fabrication. In June 2006, we hired a third-party laboratory to perform a series of independent test and issue their reports to assist us in validating the BioLargo technology to a GLP standard.

Throughout 2006, we also were actively involved in initial marketing activities for the BioLargo technology. For example, in February 2006, we presented the BioLargo technology to a number of major corporations for potential licensing discussions. Following an April 2006 international conference of industry for infection control in Prague, Czech Republic, attended by Mr. Code, we pursued with Mr. Code presentations to one of the largest companies in the embedded anti-microbial industry. In June 2006, we began discussions with a number of large healthcare companies about incorporating the BioLargo technology in their products. The potential areas of focus include wound dressings, drapes, wipes, bandages, diapers disinfecting and sterilization solutions, among other possible uses in their various products.

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Also in June 2006, we participated in a conference for all government agencies throughout California and have since discussed the BioLargo technology for possible governmental use in sewage spills, water quality, rainwater runoff contamination problems and beach clean-up efforts. Also in June 2006, we participated in a national military defense conference sponsored by the National Defense Industry Association for all military services, including the Department of Homeland Security, and have since discussed the BioLargo technology for possible application in the areas of military hospitals, pandemic prevention, agricultural protection, hazardous waste, food protection, decontamination of porous and non-porous materials, disaster relief and national world class laboratory access. Subsequently, we have presented the BioLargo technology with other governmental officials and agencies. In September we also attended a national Agro Terrorism Conference sponsored by the Federal Bureau of Investigation and the Joint Terrorism Task Force.

Meetings are continuing with numerous potential licensees or purchasers or other users of products incorporating the BioLargo technology in a range of applications. A number of prospective licensees are engaged in materials and product testing efforts, as well as discussions with the Company about product designs and various uses of the BioLargo technology. However, it is essential to note that we do not yet have any agreements in place with any of these potential licensees, purchasers or other users, or any other potential licensees, purchasers or other users, regarding any products incorporating the BioLargo technology, and no assurance can be given if any such efforts will prove successful or result in commercialization of the BioLargo technology.

Because of the global implications of the BioLargo technology, we intend to augment our U.S. operations with an operational and marketing presence in the European Union (EU), subject to obtaining adequate funding, which we are actively seeking but for which no commitment has yet been obtained.

Competition

Large well-capitalized companies, such as Johnson & Johnson, BASF Corporation, Dow Chemical Co., E.I. DuPont De Nemours &Co., Chemical and Mining Company of Chile, Inc., Proctor and Gamble Co., Johnson Diversey, Inc., EcoLab, Inc., Steris Corp. and Siemens AG, and others, dominate each of their respective markets for disinfecting or sanitizing products. Each of these named companies and many other competitors are significantly more capitalized than we are and have many more years of experience in producing disinfecting or sanitizing products.

Our BioLargo technology and products incorporating our BioLargo technology would compete with many other applications currently on the market. In addition, we are aware of other companies engaged in research and development of other novel approaches to applications in some or all of the markets identified by us as potential fields of application for our products. Many of our present and potential competitors have substantially greater financial and other resources and larger research and development staffs than we have. Many of these companies also have extensive experience in testing and applying for regulatory approvals. In addition, colleges, universities, government agencies, and public and private research organizations conduct research and are becoming more active in seeking patent protection and licensing arrangements to collect royalties for the use of technology that they have developed, some of which may be directly competitive with our applications.

Regulation

Products incorporating the BioLargo technology may be regulated depending upon the application and the scientific claims made. We believe that the primary focus of our BioLargo technology is its disinfecting capability, and such claims are subject to FDA or EPA regulation. However, we believe that some products incorporating our BioLargo technology can be sold based on claims regarding enhanced holding and/or absorption capabilities only; we believe that such claims are not subject to FDA or EPA regulation.

The regulatory approvals for certain applications may be difficult, impossible, time consuming and or expensive to obtain. While management believes that such approvals are available for the applications contemplated, until those approvals from the FDA or the EPA, or other regulatory bodies, if required, at the

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federal and state levels, as may be required are obtained, then the Company may not be able to generate commercial revenues. Certain specific regulated applications and its use therein require highly technical analysis, additional third party validation and will require regulatory approvals from organizations like the FDA. Accordingly, the Company can give no assurance as to its ultimate success in obtaining the necessary approvals from either the EPA or the FDA.

Additionally, the Company intends to pursue commercial opportunities in Europe for its technology. The EU governs the registration and uses of individual chemical ingredients which are used in products which may incorporate the BioLargo technology, including their uses and allowable dosages. In addition, when pursuing a commercial strategy within the EU, the member countries of the EU each have an oversight and registration process which governs the formulations which are being sold in their country. Specific regulated applications in the EU and its use therein require highly technical analysis, additional third-party validation and will require regulatory approvals from these organizations. The regulatory approvals required for certain applications may be difficult, impossible, time consuming and/or expensive to obtain. Accordingly, the Company can give no assurance as to its ultimate success in introducing the BioLargo technology in the EU.

Intellectual Property

We regard our intellectual property as critical to the ultimate success of the Company. The Company worked closely with Mr. Code and IOWC during 2006, pursuant to the Consulting Agreement and R&D Agreement, to identify technology improvements and additional patent opportunities that expand and enhance on the original patents issued. At the same time, the Company worked to secure additional third-party testing and validations for the efficacy and product claims associated with the technology, namely through its work with ATS and the Department of Environmental Engineering at UCLA.

In connection with the closing of the acquisition of the BioLargo technology in April 2007, the Company obtained full rights, title and interest to two US patents previously owned by Mr. Code and IOWC. Mr. Code, IOWC and co-inventors of certain intellectual property had previously assigned six USPTO patent applications and two additional PCT patent applications to the Company.

The Company believes that this suite of intellectual property covers the presently targeted major areas of focus for its licensing strategy. The description of the Company s intellectual property, as present, is as follows:

Patents

United States Patent 6,146,725, dated November 14, 2000, entitled absorbent composition , relating to an absorbent composition to be used in the transport of specimens of bodily fluids

United States patent 6,328,929, dated December 11, 2001, entitled Method of delivering disinfectant in an absorbent substrate , relating to method of delivering disinfectant in an absorbent substrate

Patent Applications

USPTO Patent Application 11/516,958 (filed September 7, 2006), relating to the use of the BioLargo technology as a treatment for remediation and improvement of a mass such as sand or soil that has been contaminated with microbes such as bacteria, viruses, rickettsiae and fungi.

USPTO Patent Application 11/516,960 (filed September 7, 2006), relating to the use of the BioLargo technology to provide protection against antimicrobial activity including the preventing of microbial build up that can occur, when used in close proximity to the bodies of human patients in product such as sheets, diapers, bandages compresses and the like.

USPTO Patent Application 60/850,976 (filed October 11, 2006), relating to the use of the BioLargo technology for antimicrobial protection, in environments such as offices, vehicle cabs,

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operating rooms, vehicle interiors, grain storage facilities and the like, that need to be protected from or cleansed of microbial or chemical material that might be of concern. The technology also includes proprietary coating and/or treatment of provided materials or reagents.

USPTO Patent Application 60/873,763 (filed December 8, 2006), relating to the use of the BioLargo technology as a treatment of environments including fields, lawns, parks, orchards, farm fields, greenhouses to provide at least pesticidal activity.

USPTO Patent Application 60/881,061 (filed January 18, 2007), relating to use of the BioLargo technology as a treatment of residue, deposits or coatings within large liquid carrying structures such as pipes, drains, ducts, conduits, run-offs, tunnels and the like, using iodine, delivered in a variety of physical forms and methods, including using its action to physically disrupt coatings. The iodine s disruptive activity may be combined with other physical removal systems such as pigging, scraping, tunneling, etching or grooving systems or the like.

USPTO Patent Application 60/900,374 (filed February 8, 2007), relating to the use of the BioLargo technology as protection of against antimicrobial activity in environments that need to be protected or cleansed of microbial or chemical material. These environments include closed and open environments and absorbent sheet materials that exhibit stability until activated by aqueous environments. The field also includes novel particle technology, coating technology or micro-encapsulation technology to control the stability of chemicals that may be used to kill or inhibit the growth of microbes to water vapor or humidity for such applications.

PCT/US Patent Application 2007/07508 (filed March 27, 2007), claiming priority from at least some of the earlier USPTO Patent applications listed above, and expanded the scope of coverage to additional technologies such as packets for dishwashers.

PCT/US Patent Application 2007/07515 (filed March 27, 2007), claiming priority from the last-listed USPTO patent application and its associated claims.

The Company intends to continue to expand and enhance its suite of intellectual property through ongoing focus on product development, new intellectual property development and patent applications, and further third-party testing and validations for specific areas of focus for commercial exploitation. We currently anticipate that additional patent applications will be filed during the next 12 months with the USPTO and the PCT, although we are uncertain of the cost of such patent filings, which will depend upon the number of such applications prepared and filed. The prosecution of patents and ongoing maintenance and defense of patents is expensive and will require substantial ongoing capital resources. However the Company cannot give any assurance that adequate capital will be available or will be available, if at all, on favorable terms.

Other Recent Corporate Developments

On March 15, 2007 the Company s stockholders approved the filing of an amendment to the Company s certificate of incorporation changing the Company s name to BioLargo, Inc. The amendment to the certificate of incorporation was filed on March 16, 2007 with the Secretary of State of the State of Delaware. In connection with this name change, the Company has obtained a new trading symbol. The Company s stock continues to trade through the National Quotation Service Bureau, commonly known as the Pink Sheets , under its new trading symbol BLGO effective March 21, 2007.

Also on March 15, 2007, the Company s stockholders approved, and effective as of the close of business on March 19, 2007, the Company completed, the 1-for-25 reverse split of its common stock. Additionally, on March 15, 2007, the Company s stockholders approved and the Company has filed, an amendment to the Company s certificate of incorporation increasing the Company s authorized capital stock to 200,000,000 shares of common stock and 50,000,000 shares of preferred stock, on a post-Reverse Split basis.

Following such action, the Company converted an aggregate $2,235,276 of principal and accrued but unpaid interest of convertible notes held by 92 investors. These notes had various maturity dates and provided for

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various conversion prices ranging from $0.10 to $0.625 per share, as adjusted to reflect the Reverse Split and were converted into an aggregate 6,985,441 shares of the Company s common stock, as adjusted to reflect the Reverse Split.

The Company also converted an aggregate $608,759 of accrued payables to five of its current or former officers and directors into an aggregate 1,623,359 shares of the Company s common stock, as adjusted to reflect the Reverse Split. These conversions were effected at $0.375 per share, the closing price of a share of the Company s common stock on the March 15, 2007 conversion date, as adjusted to reflect the Reverse Split.

The Company also converted an aggregate $740,296 of accrued payables to 18 of its current or former consultants into an aggregate 1,803,615 shares of the Company s common stock, as adjusted to reflect the Reverse Split. These conversions were effected at various prices ranging from $0.20 to $0.625 per share, as adjusted to reflect the Reverse Split.

On April 11, 2007, Augustine II, LLC (the Augustine Fund) converted an aggregate $717,138 of principal and accrued but unpaid interest of a convertible note, as amended (the Augustine Note), into 2,031,553 shares of the Company s common stock. The Augustine Note had a maturity date of May 1, 2007. The Augustine Note provided for a conversion price equal to the last bid price of the five trading days preceding the date of conversion, or $0.353 per share. The Augustine Note and the loan agreement in respect of the Augustine Note limited the Augustine Fund to hold not more than 4.9% of the Company s issued and outstanding common stock at any given time. In connection with the conversion of the Augustine Note, the Company waived this limitation.

On April 13, 2007, New Millennium Capital Partners, LLC (New Millennium) converted the $900,000 principal amount of a note, as amended (the New Millennium Note), into 1,636,364 shares of the Company s common stock. The New Millennium Note had a maturity date of January 15, 2008. The New Millennium Note was converted at a price of $0.55 per share, which was the last bid price on the date of conversion. New Millennium is controlled by Dennis Calvert, the Company s President and Chief Executive Officer.

Employees

As of December 31, 2006, we employed one full-time employee, one part-time employee, three full-time consultants and three part-time consultants.

In April 2007, Mr. Code, who served as one of our full-time consultants during 2006, became our Chief Technical Officer in conjunction with the closing of the acquisition of the BioLargo technology.

Risk Factors

The Company faces a number of significant risks associated with its current plan of operations. These include the following:

We have never generated any revenues, have a history of losses, and cannot assure you that we will ever become or remain profitable.

We have not yet generated any revenue from operations and, accordingly, we have incurred net losses every year since our inception. To date, we have dedicated most of our financial resources to research and development, general and administrative expenses and initial sales and marketing activities. We have funded all of our activities through sales of our securities. Even if and when we begin licensing our technology, we anticipate net losses and negative cash flow to continue for the foreseeable future until such time as licensing revenue is generated in sufficient amounts to offset operating losses. As planned, we have significantly expanded both our research and development efforts, and our sales and marketing efforts, during the past year. Consequently, we will need to generate significant additional revenue to fund our operations. This has put a proportionate corresin-left: 0%; margin-right: 0%; text-indent: 0%; font-size: 9pt; font-family: Arial, Helvetica; color: #000000; background: #FFFFFF"> Based solely on a review of the Forms 3, 4 and 5, and any amendments thereto, furnished to us, and on written representations from certain reporting persons, we believe that the only filing deficiencies under Section 16(a) by our trustees, executive officers and 10% shareholders in the year ended December 31, 2008 (or in 2009, prior to the mailing of this proxy statement) are as follows:

(a) one late filing by Russell B. Wight, Jr, a trustee, with respect to a transaction reported on a Form 5;
(b) two late filings by Robert P. Kogod, a trustee, with respect to distribution and unit redemption transactions reported on Form 4;
(c) one late filing by Joseph Macnow, an executive officer, with respect to the purchase of preferred shares

reported on a Form 4;

(d) one late filing by Wendy Silverstein, an executive officer, with respect to a transaction reported on Form 4;

(e) two late filings by Dr. Richard R. West, a trustee, with respect to the purchase of preferred shares reported on Form 4; and

(f) one late filing by Mitchell N. Schear, an executive officer, with respect to a transaction reported on a Form 5.

COMPENSATION DISCUSSION AND ANALYSIS

Overview of Compensation Philosophy and Program

We believe that the quality, skills and dedication of our senior executive officers are critical factors affecting the long-term value of our company. Our key compensation goals are to attract world-class executive talent; retain our key leaders; reward past performance; provide an incentive for future performance; and align our executives long-term interests with those of our investors. We use a variety of compensation elements to achieve these goals, including base salary, annual bonuses, options, Restricted Shares, Restricted Units and out-performance units, all of which we discuss in detail below.

Compensation Reductions in Response to Current Economic Conditions

In light of the current uncertain economic conditions, we determined to decrease the compensation levels of our executive officers and other officers throughout the Company. This process was undertaken in connection with our annual compensation review completed in the first quarter of 2009. This decision was made despite our reporting strong results in our core operations for 2008 (as reported in our Annual Report on Form 10-K for the year ended December 31, 2008, our same-store EBITDA for our New York Office, Washington, DC Office and Retail divisions increased by 6.2%, 4.5% and 4.8%, respectively, over the prior year). In the aggregate, we reduced by 29% the salary, bonuses and annual equity compensation of our executive officers, with total compensation being reduced in a range of 16% to 52% for the individual executives. For other employees of the Company, the aggregate salaries and bonuses did not increase and the value of annual equity grants decreased by 19%. Additionally, OPP Units were granted to members of management in 2008 and not in 2009.

The compensation reductions discussed above are not reflected in the Summary Compensation Table below for three reasons: (1) the reductions pertain to awards granted in 2009 (for 2008 performance) and were not recorded in the periods presented; (2) the Summary Compensation Table reflects the accounting costs associated with amortizing equity grants made in multiple years (from 2003 to 2008) over the applicable vesting period while our discussion of compensation reductions pertains to a single year s compensation decisions; and (3) the Summary Compensation Table reflects the accounting cost (which we refer to as Fair Value) of Restricted Units is based on a valuation formula determined by a third-party valuation firm that changes from year to year while our Compensation Committee grants Restricted Units based on the market price of our Shares on the date of grant (which we refer to as Market Value) which was the method used in the discussion above.

Additionally, we have excluded the impact of OPP Unit awards from this Compensation Discussion and Analysis in comparing aggregate 2008 salary, bonus and annual equity compensation to the comparable amount for 2007 because, while OPP Units were awarded in 2008 (for 2007 performance), there were no comparable awards made in 2009 (for 2008 performance).

Surrender of Equity Awards

In the first quarter of 2009 each of our nine most senior executive officers voluntarily surrendered all grants to them during 2007 and 2008 of options and of 2008 OPP Units, as defined below (without any consideration or agreement for consideration in the future). The voluntary surrender of these awards resulted in an approximate $32.6 million expense to the Company in the first quarter of 2009 due to the acceleration of the unamortized expense associated with the granting of these awards.

Implementing Our Objectives

Our decisions on senior executive officer compensation are based primarily upon our assessment of each executive s leadership, operational performance and potential to enhance long-term shareholder value. We rely upon our judgment about each individual and not on rigid formulas or short-term changes in business performance in determining the amount and mix of compensation elements. Key factors affecting our judgment include: actual performance compared to the financial, operational and strategic goals established for the executive s operating division at the beginning of the year; the nature, scope and level of responsibilities; the contribution to the Company s financial results, particularly with respect to key metrics such as earnings before interest, taxes, depreciation and amortization (EBITDA), funds from operations (FFO) and total return to shareholders during the year; and the contribution to the Company s commitment to corporate responsibility, including success in creating a culture of unyielding integrity and compliance with applicable laws and our ethics policies. We also consider each executive s current salary and prior-year bonus, the value of an executive s equity stake in the Company, and the appropriate balance between incentives for long-term and short-term performance and the compensation paid to the executive s peers within the Company. We also consider competitive market compensation paid by other companies that operate in our business or that compete for the same talent pool, such as other S&P 500 REITS, other real estate companies operating in our core markets and, in some cases, investment banking, hedge fund and private equity firms. However, we do not tie our compensation decisions to any particular range or level of total compensation paid to executives at these companies. In addition, while we encourage alignment with shareholders interests through long-term, equity-based compensation, we have no pre-established target for the allocation of compensation between cash and non-cash or short-term and long-term incentive elements. We apportion cash payments and equity incentive awards as another tool to provide the appropriate incentives to meet our compensation objectives both individually and in the aggregate for executives and other employees. The factors we consider in evaluating compensation for any particular year may not be applicable to determinations in other years. In addition, typically, our Chief Executive Officer and President receive a higher proportion of their compensation in the form of equity than our other senior executives. This allocation is based on (1) the relative seniority of these executives; and (2) a determination that these executives should have a greater proportion of their compensation in a form that aligns further their interests with those of shareholders. We believe the most important indicator of whether our compensation objectives are being met is whether we have motivated our named executives to deliver superior performance and retained them to continue their careers with us on a cost-effective basis.

Role of the Corporate Governance and Nominating Committee, the Compensation Committee, the CEO and the President

The Corporate Governance and Nominating Committee of our Board is responsible for evaluating potential candidates for executive positions, including the Chief Executive Officer, and for overseeing the development of executive succession plans. The Compensation Committee of our Board (1) reviews and approves the compensation of our officers and other employees whose total cash compensation exceeds $200,000 per year, (2) administers our incentive compensation and other equity-based plans, and (3) regularly evaluates the effectiveness of our overall executive compensation program.

As part of this responsibility, the Compensation Committee oversees the design, development and implementation of the compensation program for our Chief Executive Officer, our President and our other named executives. The Compensation Committee evaluates the performance of our Chief Executive Officer and our President and sets their compensation. Our Chief Executive Officer, our President and the Compensation Committee together assess the performance of our named executives and determine their compensation, based on the initial recommendations of our Chief Executive Officer and our President. The other named executives do not play a role in determining their own compensation, other than discussing individual performance objectives with our Chief Executive Officer and our President.

In support of these responsibilities, members of our senior management in conjunction with other senior executives, have the initial responsibility of reviewing the performance of the employees reporting to him or her and recommending compensation actions for them.

This process involves multiple meetings among our Chief Executive Officer, our President and our Compensation Committee. Typically, in the third and fourth quarter of each year, these parties meet to discuss and establish an overall level of compensation for the year and the base compensation for the following year. For 2008, as has been our normal practice, our President obtained individual recommendations from division heads as to compensation levels for those persons reporting to the division heads. These recommendations are discussed among our President and the division heads prior to a recommendation being presented to the Compensation Committee. For our senior executives other than the Chief Executive Officer and President, recommendations are prepared based upon discussions among the Compensation Committee, our Chief Executive Officer and our President. These recommendations are based upon our objectives described above and may include factors such as information obtained from compensation consultants. Our Chief Executive Officer and President discuss these recommendations with our other senior executives in one-on-one meetings. After these discussions, certain allocations or other aspects of compensation may be revised to some degree and the revised recommendations are presented to the Compensation Committee for discussion and review and, ultimately, through a continued process, approval. The compensation of our Chief Executive Officer and President is determined in accordance with a similar process involving direct discussions among the Compensation Committee and our Chief Executive Officer and President. Historically, except for OPP awards, specific performance targets are not used in determining compensation.

Role of Compensation Consultants

We and the Compensation Committee also consult with one or more executive compensation experts, from time to time, and consider the compensation levels of companies within our industry and other industries that compete for the same talent. Periodically, we have retained compensation consultants to assist in the design of programs that affect senior executive compensation, most recently in the development of our out-performance plan (described below). Currently, the Compensation Committee has retained Watson Wyatt & Company to provide assistance in reviewing our overall compensation plan, its objectives and implementation. In 2008, Watson Wyatt was directed to review our overall compensation process and comparative compensation levels for senior executive officers. Watson Wyatt prepared an analysis of compensation levels at the following companies that it determined to be comparable: BlackRock, Inc.; Boston Properties, Inc.; CB Richard Ellis Group, Inc.; Equity Residential; Franklin Resources, Inc.; Host Hotels & Resorts, Inc.; Jefferies Group, Inc.; Jones Lang LaSalle Incorporated; Lazard Ltd.; Legg Mason, Inc.; ProLogis; Simon Property Group, Inc.; and SL Green Realty Corp. The consensus of the Compensation Committee was that the analyses were useful in indicating that our compensation levels were not out-of-line with these other companies.

Compensation Elements for Senior Executive Officers

The elements of our executive compensation program are set forth below. The factors we consider in making compensation awards for our senior executive officers are set forth above and are based upon a subjective, non-formulaic evaluation of senior executive and Company performance conducted by the Compensation Committee together with our Chief Executive Officer and President, which we discuss below. These factors are considered as a whole and no one factor is determinative of an executive s compensation. Among the factors considered were the changes in the Company s and the applicable division s operating and performing metrics during the year (EBITDA and FFO), our total return to shareholders during the year, asset and personnel development and the other factors previously mentioned. Decreases and allocations for 2008 and increases and allocations for 2007 and 2006 of various compensation elements to our named executive officers were based upon the results of these reviews. In several cases, as described below, some aspects of the compensation paid to our executives are affected by the terms of applicable employment agreements. In such cases, for instance, base salaries cannot be decreased during the employment term.

Base Salary

Base salaries for our executives are established based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies for similar positions as well as salaries paid to the executives peers within the Company. We set base salaries at a level designed to attract and retain superior leaders. Base salaries are typically reviewed every 12 months in the first quarter of each year in connection with annual performance reviews, and adjusted to take into account outstanding individual performance, promotions and competitive compensation levels. There were no increases in senior executive base salaries for 2009 over that of 2008.

Annual Bonus

We pay annual bonuses as a component of overall compensation as well as to provide an incentive and a reward for superior performance. From time to time, we may pay additional special bonuses for superior performance. None of our current bonuses are (and only in rare cases are any) bonuses based on specific performance targets. Bonuses are paid in cash and/or in equity interests, generally in the first quarter of each year for the prior year s performance. These bonuses are based upon our evaluation of each executive s individual performance during the prior year in the context of our assessment of the overall performance of the Company and the executive s business unit or function in meeting the budgeted financial and other goals established for the Company and the executive s business unit or function. For our senior executives, the annual bonuses paid to them in 2009 (for 2008 performance) were, in the case of our Chief Executive Officer and President, all in the form of Restricted Units and for the remainder of our senior executive officers 50% in Restricted Units and 50% in cash. As described below, we believe Restricted Units to be a tax-efficient form of compensation that continues to align the executive s interests with those of our shareholders, and enhances retention through vesting conditions. Special bonuses are generally awarded in recognition of outstanding achievement with regard to specific events based upon an after-the-fact subjective evaluation of factors then deemed important by our Chief Executive Officer, President and Compensation Committee.

Options, Restricted Shares and Restricted Units

Also, generally in the first quarter of each year in connection with annual performance reviews, we make grants to the Company s officers, including our senior executive officers of: options to purchase our common shares, Restricted Shares, and/or Restricted Units. The portion of overall compensation, if any, allocated each year among these types of grants is determined by the Compensation Committee, in conjunction with our Chief Executive Officer and our President, taking into account our overall compensation objectives. These grants are intended to serve as incentives for our superior performers to remain with us and continue that performance. Generally, unvested equity grants are forfeited if the executive leaves the Company, however, options fully vest if an executive departs the Company after the age of 65 or his or her employment is terminated due to a disability prior to retirement and all equity awards automatically vest on death or upon a change of control. All equity grants are accounted for in accordance with Statement of Financial Accounting Standards 123R-*Share Based Payment* (SFAS 123R).

Upon vesting, each option permits the executive, for a period of ten years from the original grant date, to purchase the stated number of common shares from the Company at an exercise price per share determined on the date of grant. Options have value only to the extent the price of our shares on the date of exercise exceeds the applicable exercise price. Options generally become exercisable in five equal annual installments beginning approximately one year after the grant date.

Restricted Shares are grants of our common shares that generally vest in five equal annual installments beginning approximately one year after the grant date. Restricted Units are grants of limited partnership interests in Vornado Realty L.P., our operating partnership through which we conduct substantially all of our business. These units also generally vest in five equal annual installments beginning approximately one year after the grant date and are exchangeable on a one-for-one basis into Vornado Realty L.P. s Class A common units, and then for our common shares, in certain circumstances. Restricted Units are intended to also provide recipients with better income tax attributes than Restricted Shares. During the restricted period, each Restricted Share or Restricted Unit entitles the recipient to receive payments from the Company equal to the dividends on one Share.

Out-Performance Units

A principal component of our long-term equity incentives has been our out-performance plans. In 2006 and again in 2008, our Compensation Committee approved the adoption of an out-performance plan. These plans are designed to provide compensation in a pay for performance structure. Awards under our out-performance plans are a class of units (collectively referred to as OPP Units) of the Company s operating partnership, Vornado Realty L.P., issued under our 2002 Omnibus Share Plan, as amended. If the specific performance objectives of these out-performance plans are achieved as determined by our Compensation Committee, the OPP Units become convertible into Class A common units of Vornado Realty L.P. (and ultimately into our Shares) following vesting, and their value fluctuates with changes in the value of our Shares. If the performance objectives are not met, the OPP Units are cancelled. Generally, unvested OPP Units are forfeited if the executive leaves the Company, except that OPP Units vest automatically on death or upon a change of control. OPP Units are intended to also provide recipients with better income tax attributes than grants of options. All grants under our OPP Plans are accounted for in accordance with SFAS 123R.

The out-performance plan approved in 2006 (the 2006 OPP Plan) was adopted as part of our regular annual evaluation of executive performance and compensation for 2005 performance. Under the 2006 OPP Plan, the Company s senior management and approximately 45 of our other officers received the opportunity to share in a performance pool if our total return to shareholders for the three-year period from March 15, 2006 to March 14, 2009 were to exceed a cumulative 30%, including both share appreciation and dividends paid. These performance targets were fully achieved as of January 12, 2007 in accordance with the 2008 OPP Plan provisions. The size of the pool was 10% of the out-performance return amount in excess of the 30% benchmark, subject to a maximum aggregate award equal to $100 million. Once the performance targets were met, the receipt of the applicable awards became subject only to time-based vesting. However, the value of these awards fluctuates with changes in the value of our Shares. Compensation earned under the program vests 331/3% on each of March 14, 2009, 2010 and 2011. The grants under the 2006 OPP Plan were not a factor in determining compensation earned for 2008. We refer to grants under the 2006 OPP Plan as 2006 OPP Units.

The Compensation Committee approved a new $75 million out-performance plan in March of 2008 (the 2008 OPP Plan) that requires achievement against both absolute and relative thresholds. The 2008 OPP Plan established a potential performance pool in which our senior management (and approximately 70 of our other officers) has the opportunity to share in that performance pool s value if the total return to our shareholders (TRS), resulting from both share appreciation and dividends, for the four-year period from March 31, 2008 to March 31, 2012 exceeds the absolute and/or relative hurdles described below. We established $86.20 per Share as the initial value from which to determine TRS. In the first quarter of 2009, each of our executive officers (the nine most senior executives) surrendered all grants to them of 2008 OPP Units (without any consideration or agreement for consideration in the future).

n Absolute Component: 40% cumulative TRS over the four-year period, or 10% simple return per annum over that period (the Absolute Threshold).

n Relative Component: In addition to the Absolute Threshold, the value of grants under the 2008 OPP Plan (the 2008 OPP Units) increases to the extent the TRS exceeds the total return for the four-year measurement period achieved by the SNL Equity REIT Index and decreases (to potentially no value) if the TRS is less than the total return for the SNL Equity REIT Index for that measurement period (the Relative Threshold). Furthermore, if the TRS for the measurement period does not exceed the Absolute Threshold but does exceed the Relative Threshold, any value of the 2008 OPP Plan is reduced proportionately so that at a 10% annual TRS to the Company shareholders (the full Absolute Threshold) the participants would be entitled to 100% of the value earned under the 2008 OPP Plan and at a 7% annual TRS to the Company shareholders, the 2008 OPP Plan would have no value.

If achieved, the size of the outperformance pool for the 2008 OPP Plan will be 6% of the aggregate out-performance return subject to a maximum total award of approximately $75 million (the Maximum Award). The out-performance return is comprised of (i) 3% of the total dollar value of the Company s TRS in excess of that calculated using the Absolute Threshold plus (ii) 3% of the total dollar value of the Company s TRS in excess of that calculated using the Relative Threshold over the four-year performance period. In the event that the Relative Component creates a negative award because the Company underperformed the SNL Equity REIT Index, the value of any out-performance award potentially earned under the Absolute Component will be reduced dollar for dollar. The size of this out-performance pool, if any, will be determined based on the highest 30-day trailing average price of our Shares during the final 150 days of the four-year period.

The 2008 OPP Plan also provides for two interim measurement periods (the Interim Periods) in addition to the four-year aggregate period: (a) one for a period consisting of the first two years of the plan and (b) one for a period consisting of the second two years of the plan. For each Interim Period, participants may be entitled to share in up to 40% ($30,000,000) of the total possible performance pool if the performance thresholds have been met on a prorated basis based on performance over the applicable two-year period. If the performance hurdles are not met for the first Interim Period, participants will still be able to earn awards for (a) the second Interim Period based upon a TRS achieved based on the market price of our Shares at the beginning of the second Interim Period (but which comparison price will not be less than the price used at the start of the 2008 OPP Plan less aggregate dividends paid to that date from the start of the plan) or (b) for the cumulative four-year period if the four-year TRS performance hurdles are met. In no event will the aggregate awards exceed the Maximum

Award. 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.

Compensation earned under the 2008 OPP Plan (including any awards earned for the Interim Periods), will vest 50% on March 31, 2012 and 50% on March 31, 2013. Individual awards were made in the form of OPP Units. During the course of the performance period, participants are entitled to 10% of any regular quarterly dividends paid on a Share for every 2008 OPP Unit granted, regardless of whether such unit is ultimately earned. The actual number of 2008 OPP Units issued is subject to the determination of the performance pool referred to above and Compensation Committee approval.

Nonqualified Deferred Compensation Plans

We maintain two nonqualified deferred compensation plans, the Vornado Realty Trust Nonqualified Deferred Compensation Plan (Plan I) and the Vornado Realty Trust Nonqualified Deferred Compensation Plan II (Plan II ; collectively, the Plans). Plan I and Plan II are substantially similar, except that Plan II, which applies to deferrals on and after January 1, 2005, is designed to comply with the deferred compensation restrictions of Section 409A of the Internal Revenue Code of 1986, as amended.

Employees having annual compensation of at least $200,000 are eligible to participate in Plan II, provided that they qualify as accredited investors under securities laws. Members of our Board of Trustees are also eligible to participate. To participate, an eligible individual must make an irrevocable election to defer at least $20,000 of his or her compensation per year. Participant deferrals are always fully vested. The Company is permitted to make discretionary credits to the Plans on behalf of participants, but as yet has not done so. Deferrals are credited with earnings based on the rate of return of specific security investments or various benchmark funds selected by the individual, some of which are based on the performance of the Company s securities.

Participants may elect to have their deferrals credited to a Retirement Account or a Fixed Date Account. Retirement Accounts are generally payable following retirement or termination of employment. Fixed Date Accounts are generally payable at a time selected by the participant, which is at least two full calendar years after the year for which deferrals are made. Participants may elect to receive distributions as a lump sum or in the form of annual installments over no more than ten years. In the event of a change in control of the Company, all Accounts become immediately payable in a lump sum. Plan I also permits a participant to withdraw all or a portion of his or her Accounts at any time, subject to a 10% withdrawal penalty.

Retirement and 401(k) Plans

Our defined benefit retirement plan was frozen for new participants and benefits in 1997 and was terminated in 2008. Of the named executives, only Messrs. Roth, Fascitelli and Macnow were participants. The amounts payable to these persons is set forth below under Employee Retirement Plan. We offer a 401(k) Retirement Plan to all of our employees for whom we provide matching contributions (up to 75% of the statutory maximum but not more than 7.5% of cash compensation) which vest over five years. We do not have any other retirement plan. These plans are not a factor in our current compensation determinations.

Perquisites and Other Compensation

We provide our senior executive officers with perquisites that we believe are reasonable, competitive and consistent with our overall executive compensation program. These perquisites may include: use of a Company car and a driver;

financial counseling and tax preparation services; and supplemental life insurance. The costs of these benefits constitute a small percentage of any applicable executive s overall compensation.

Basis for Chief Executive Officer Compensation

Cash compensation

Mr. Roth s base salary of $1,000,000 was established in March 2001 and has remained unchanged since then. Mr. Roth s bonuses for 2008, 2007 and 2006 (granted in 2009, 2008 and 2007, respectively) were principally in the form of equity. His total cash compensation for 2008, 2007 and 2006 was $1,003,800, $1,009,500 and $1,000,000, respectively.

Equity compensation

Mr. Roth s bonus (granted in 2009) for 2008 performance was $1,000,000 (at Market Value) in Restricted Units as opposed to $1,500,000 (at Market Value) in Restricted Units in 2007, a 33% reduction. Using Fair Value, Mr. Roth s bonus (granted in 2009) for 2008 performance was $928,000 in Restricted Units as opposed to a $1,078,300 grant of Restricted Units in 2008, a 14% reduction from that granted in 2008 for 2007 performance. In 2007, Mr. Roth was granted a bonus (for 2006 performance) of $1,078,300 (at Fair Value) in Restricted Units.

For 2008, Mr. Roth was also granted (in 2009) long-term equity incentive compensation of 45,000 Restricted Units (having a Market Value of $1,521,500 and a Fair Value of $1,412,000) and an option to acquire 300,000 Shares with an exercise price of $33.815 per share. The aggregate value at the date of grant of these awards of Restricted Units and options is $3,114,000 (at Market Value) and $3,004,500 (at Fair Value) and represents a 31% and 33% reduction for the aggregate value of non-bonus grants of Restricted Units and options made in 2008. In 2008, Mr. Roth was also granted an award of OPP Units which were not granted in 2009. For 2007 performance, Mr. Roth was granted (in 2008): (a) 143,294 OPP Units; and (b) a 10-year option to acquire 700,000 Shares at an exercise price of $103.00 per share. For 2006 performance, Mr. Roth was granted (in 2007) (1) an award of $1,925,500 in the form of Restricted Units (at Fair Value) and (2) a 10-year option to acquire 89,732 Shares at an exercise price of $121.58 per share.

Mr. Roth s salary, bonus and equity awards were based on an evaluation of those factors previously described and were approved by the Compensation Committee. Among the factors considered were the strategic position of the Company, the changes in the Company s operating and performing metrics during the year (EBITDA and FFO), our total return to shareholders during the year and the other factors previously mentioned. These factors were considered as a whole and no numerical weight was attributed to any particular factor. The majority of Mr. Roth s compensation is in the form of equity to further align his interests with those of our shareholders.

We believe that Mr. Roth s cash and equity compensation in and for 2008 appropriately reflect his and the Company s performance, measured both objectively and subjectively, the Company s strategic growth position at the time such compensation was determined and the current economic environment.

Basis for Compensation of Other Named Executives

For our other named executive officers (Messrs. Fascitelli, Greenbaum, Macnow and Mathrani), such executive s salary, bonus and other equity awards were based on an evaluation of those factors previously described and were approved by the Compensation Committee. Among the factors considered were the strategic position of the Company, the changes in the Company s operating and performing metrics during the year (EBITDA and FFO), our total return to shareholders during the year and the other factors previously mentioned. With regard to Messrs. Fascitelli and Macnow (our President and Chief Financial Officer, respectively), we considered these factors as they apply to our Company as a whole as their responsibilities are company-wide. For Mr. Fascitelli as our President, we determined that the majority of his compensation should be in the form of equity to further align his interests with those of our shareholders. For Messrs. Greenbaum and Mathrani, we also considered these factors as they pertain to the applicable operating division of which such executive is the head. Mr. Greenbaum is the President of our New York Office Division, and Mr. Mathrani is our Executive Vice President Retail. In all cases, these factors were considered as a whole and no numerical weight was attributed to any particular factor. In the aggregate, salary and bonuses awarded to these named executive officers in 2009 (for 2008 performance) decreased from that granted in 2008 by 17% (valuing

Restricted Units at Market Value) and 10% (valuing Restricted Units at Fair Value). In addition, the value of other recurring equity awards granted in 2009 as compared to that granted in 2008 decreased by 48% (valuing Restricted Units at Market Value) and 49% (valuing Restricted Units at Fair Value).

Other Compensation Policies and Practices

Equity Grant Practices

All equity-based compensation awards are made under our 2002 Omnibus Share Plan, as amended, which our shareholders approved in 2002 and as amended in 2006. This plan limits total shares that may be issued pursuant to awards to 10,000,000 of our common shares. The exercise price of each stock option awarded to our senior executives must be no less than the average of the high and low price or our Shares on the New York Stock Exchange on the date granted by the Compensation Committee. The vast majority of our equity awards are determined and granted in the first quarter of each year, at the same time as management and the Compensation Committee conclude their evaluation of the performance of our senior executives as a group and each executive individually. In addition and from time to time, additional equity awards may be granted in connection with new hires or promotions. We have never repriced options.

Share Ownership Guidelines

As our senior executives generally have significant personal investments in our equity securities, we have not established any policy regarding security ownership by management.

In accordance with Federal securities laws, we prohibit short sales by our executive officers of our equity securities.

Employment, Severance and Change of Control Agreements

We do, from time to time, enter into employment agreements with some of our senior executive officers, which we negotiate on a case-by-case basis in connection with a new employment arrangement or a new agreement governing an existing employment arrangement. Otherwise, our senior executives and other employees serve at will. Except as may be provided in these employment agreements or pursuant to our compensation plans generally, we have not entered into any separate severance or change of control agreements. For those of our senior executives who have employment agreements, these agreements generally provide for a severance payment (for termination by us without cause or by the executive with good reason (each as defined in the applicable employment agreement and further described below under Employment Contracts)) and change of control payment (if employment is terminated following a change of control) in the range of one to three times the applicable executive s annual salary and bonus. In addition, the agreements evidencing awards under the Company s 2002 Omnibus Share Plan, as amended, generally provide that equity grants will vest automatically on a change of control. These change of control arrangements are designed to compensate management in the event of a fundamental change in the Company, their employer, and to provide an incentive to these executives to continue with the Company at least through such time. Severance and change of control arrangements do not generally affect other compensation arrangements for a particular period. A more complete description of employment agreements, severance and change of control arrangements pertaining to named executives and officers is set forth under Employment Contracts and Severance and Change of Control Arrangements.

Tax Deductibility of Compensation

The tax efficiency of compensation is one of many factors that enter into the design of our compensation programs. We look at a combination of the rates at which our executives will be taxed and the value of any deduction that we may be entitled to when developing our approach to compensation. We believe that the limitation of Section 162(m) of the Internal Revenue Code (which limits the corporate tax deduction for certain executive officer compensation that exceeds $1 million a year) does not apply to most of the compensation we paid to our Covered Executives for 2008 and only a small portion of their compensation may not be deductible due to that limitation.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Company has reviewed and discussed the Compensation Committee Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in the Proxy Statement and incorporated by reference in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

The Compensation Committee of the
Board of Trustees:

MICHAEL LYNNE
RONALD G. TARGAN
DR. RICHARD R. WEST

EXECUTIVE COMPENSATION

The following table sets forth the compensation earned by each of the Company s Chief Executive Officer, Chief Financial Officer and the three other most highly compensated executive officers for 2008, 2007 and 2006 (the Covered Executives). The information below does not reflect the recent reductions in compensation described in Compensation Discussion and Analysis Compensation Reductions in Response to Current Economic Conditions because the reductions pertain to grants in 2009 (for 2008 performance) and were not recorded for the periods presented below.

Summary Compensation Table

ame and rincipal osition	Year	Salary ($)	Cash Bonus ($)(1)	Restricted Share/Unit Awards ($)(2)	Option Awards ($)(2)	Non-Equity Incentive Plan Compen-sation ($)	Changes in Pension Value and Non-qualified Deferred Compensation Earnings ($)(3)	All Other Compen-sation ($)(4)	Total ($)
teven Roth hairman and	2008	1,000,000	3,800	5,802,699	1,204,439		134,015	274,484	8,419,437
hief	2007	1,000,000	9,500	5,330,804	321,033		40,749	263,984	6,966,070
xecutive Officer Principal xecutive Officer)	2006	1,000,000		3,111,767	125,202		38,653	240,032	4,515,654
Iichael D. ascitelli	2008	1,000,000	3,800	5,702,324	1,000,660		2,694	262,575	7,972,053
resident	2007	1,000,000	9,500	5,179,786	287,769		454	258,186	6,735,695
	2006	1,000,000		2,974,507	100,270		357	219,007	4,294,141
avid R. reenbaum	2008	1,000,000	503,800	1,276,411	463,038			245,854	3,489,103
resident ew York Office	2007	1,000,000	759,500	909,728	68,766			225,375	2,963,369
ivision	2006	1,000,000	500,000	516,700	27,100			229,904	2,273,704
oseph Macnow xecutive Vice	2008	1,000,000	403,800	1,524,670	166,484		61,817	311,203	3,467,974
resident	2007	1,000,000	309,500	1,276,491	61,666		20,739	241,723	2,910,119
inance and	2006	1,000,000	250,000	699,529	20,000		17,355	284,065	2,270,949

dministration nd Chief inancial Officer Principal inancial Officer)								
andeep Mathrani xecutive Vice	2008	1,000,000	503,800	1,561,319	1,934,036		55,961	5,055,116
resident	2007	1,000,000	1,009,500	1,330,833	1,284,538		105,362	4,730,233
etail Division	2006	1,000,000	1,000,000	913,759	727,130		102,222	3,743,111

(1) *The information provided includes bonuses for services that are rendered in the year indicated and are awarded in the first quarter of the next succeeding year.*

(2) *Information presented in this column reflects the dollar amount recognized for financial statement reporting purposes for the applicable fiscal year. Such amounts were recognized in accordance with SFAS 123R and includes amounts for awards made pursuant to our 2002 Omnibus Share Plan and thus includes amounts from awards granted in and prior to such fiscal year. Pursuant to the rules and regulations of the SEC, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Assumptions used in the calculation of these amounts are included in footnote 11 to our consolidated financial statements included in our Annual Report on Form 10-K (the Form 10-K) for the applicable fiscal year as filed with the SEC. Dividends are paid on both the vested and unvested portion of restricted share and restricted unit awards.*

(3) *Included in this column is the actuarial increase (or decrease) in the present value of the applicable executive s benefits under the Vornado Realty Trust Retirement Plan, a defined benefit pension plan (which was frozen in 1997 and terminated in 2008). The change in value was determined using interest and mortality rate assumptions consistent with those used in our financial statements. There were no earnings on amounts*

in the Vornado Realty Trust Nonqualified Deferred Compensation Plans which were determined to be above-market or preferential, as defined in the rules and regulations of the SEC.

(4) *See the All Other Compensation table for additional information.*

All Other Compensation Table

The following table describes each component of the All Other Compensation column in the Summary Compensation Table.

Name	Year	Use of Car and Driver ($)[(1)]	Supplemental Life Insurance Premiums ($)	Reimbursement For Medical / Dental Not Covered ($)	Tax and Financial Planning Assistance Per Employment Contract ($)	Total ($)
Steven Roth	2008	227,148	47,336			274,484
	2007	215,779	48,205			263,984
	2006	191,536	48,496			240,032
Michael D. Fascitelli	2008	230,420	17,155		15,000	262,575
	2007	227,881	15,305		15,000	258,186
	2006	190,380	13,627		15,000	219,007
David R. Greenbaum	2008	202,787	18,067	10,000	15,000	245,854
	2007	182,557	17,818	10,000	15,000	225,375
	2006	187,240	17,664	10,000	15,000	229,904
Joseph Macnow	2008	147,616	148,587		15,000	311,203
	2007	141,447	85,276		15,000	241,723
	2006	184,127	84,938		15,000	284,065
Sandeep Mathrani	2008	50,926	5,035			55,961
	2007	100,327	5,035			105,362
	2006	97,187	5,035			102,222

(1) *For each applicable fiscal year, each of the Covered Executives was provided with a car and driver. Each Covered Executive has used the car and driver for both business and personal purposes and the amounts shown*

for such executive reflect the aggregate incremental cost to the Company for the car, driver and related expenses without allocating costs between business and personal uses.

Grants of Plan-Based Awards in 2008

The following table lists all grants of plan-based awards to the Covered Executives made in 2008 and their grant date fair value. All of these awards were voluntarily surrendered (without any consideration or agreement for consideration in the future) in the first quarter of 2009.

Name	Grant Date	Estimated Future Payouts Under Equity Incentive Plan Awards[(1)] Target (#)	All Other Share/Unit Awards: Number of Shares of Stock or Units (#)[(2)]	All Other Option Awards: Number of Securities Underlying Options (#)[(3)]	Exercise or Base Price of Option Awards ($/Sh)[(3)]	Grant Date Fair Value of Awards ($)[(4)]
Steven Roth	3/31/08	143,294	17,117	700,000	103.00	9,970,694
Michael D. Fascitelli	3/31/08	143,294	17,117	700,000	103.00	9,970,694
David R. Greenbaum	3/31/08	52,541	8,559	400,000	103.00	4,721,787
Joseph Macnow	3/31/08	38,212	9,129	100,000	103.00	2,389,143
Sandeep Mathrani	3/31/08	42,988	3,423	100,000	103.00	2,176,011

(1) *The amounts shown in this column represent the maximum earnable number of 2008 OPP Units that, upon vesting, will be distributed to each Covered Executive pursuant to our 2008 Out-performance Plan. The 2008 Out-performance Plan gave participants the opportunity to share in a performance pool if certain total return objectives (described under Compensation Discussion and Analysis Compensation Elements of our Senior Executive Officers Out-Performance Units) are, in the future, achieved.*

(2) *The information presented in this column represents the number of Restricted Units that were granted to the Covered Executives. These Restricted Units vest ratably over five years beginning in 2009. Restricted Units are a separate class of units in Vornado Realty L.P. which will be convertible into Class A common units of Vornado Realty L.P. and will be ultimately redeemable for our Shares on a one-for-one basis. On February 27, 2009, the Covered Executives were granted the following numbers of Restricted Units that vest ratably over five years beginning in 2010: Steven Roth, 74,573; Michael D. Fascitelli, 74,573; David R. Greenbaum, 21,036; Joseph Macnow, 18,079; and Sandeep Mathrani, 21,036. A portion of these grants represents the grant of Restricted Units in lieu of cash bonus.*

(3)

The options granted on March 31, 2008 vest ratably over five years beginning in 2009 and were granted with an exercise price of 17.5% over the market price of our Shares on the date of grant. On February 27, 2009, the Covered Executives were granted options to acquire the following number of Shares, respectively, at an exercise price of $33.82 (the average of the high and low price of our Shares on the New York Stock Exchange on the date of grant): Steven Roth, 300,000; Michael D. Fascitelli, 300,000; David R. Greenbaum, 40,000; Joseph Macnow, 40,000; and Sandeep Mathrani, 40,000.

(4) *The amounts presented reflect the full grant date fair value of equity awards (calculated pursuant to SFAS 123R) granted to the Covered Executives in 2008. The full grant date fair value is the amount we would expense in our consolidated financial statements over the award s vesting schedule. For additional information on the value assumptions, refer to footnote 11 of our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the SEC.*

Outstanding Equity Awards at Year-End

The following tables summarize the number and value of equity awards held at December 31, 2008 and the aggregate option exercises in 2008 by, and shares that vested in 2008 for, the Covered Executives. Pursuant to the terms of our 1993 and 2002 Omnibus Share Plans (each, as amended), the exercise price and number of shares underlying options originally made at any date of grant may be adjusted to compensate the holder for special or extraordinary dividends that may be subsequently declared. The following table reflects such adjustments.

	Option Awards				Share and Unit Awards			
Name and Applicable Grant Date	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Unexercisable**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Shares or Units That Have Not Vested (#)**	**Market Value of Shares or Units That Have Not Vested ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Steven Roth								
3/31/08[1]		700,000	103.00	3/31/18	17,117	1,033,011		
3/31/08[2]							143,294	8,647,784
3/7/07[1]	17,946	71,786	121.58	3/7/17				
3/7/07[1]					27,472	1,657,935		
4/25/06[1]					9,347	564,091		
4/25/06[2]					192,980	11,646,343		
2/8/05[1]					4,620	278,817		
2/8/05[1]	70,260	46,842	70.30	2/8/15				
2/6/04[1]					4,620	278,817		
1/28/02[3]	265,061		41.29	1/28/12				
1/28/02[3]	249,419		41.40	1/28/12				
1/28/02[3]	248,704		41.52	1/28/12				
3/2/00[3]	1,530,704		30.16	3/2/10				
Michael D. Fascitelli								

3/31/08[1]		700,000	103.00	3/31/18	17,117	1,033,011		
3/31/08[2]							143,294	8,647,784
3/7/07[1]	17,182	68,732	121.58	3/7/17				
3/7/07[1]					27,143	1,638,080		
4/25/06[1]					9,347	564,091		
4/25/06[2]					192,980	11,646,343		
2/8/05[1]					3,700	223,295		
2/8/05[1]	56,269	37,514	70.30	2/8/15				
2/6/04[1]					3,700	223,295		
1/28/02[3]	265,061		41.29	1/28/12				
1/28/02[3]	249,419		41.40	1/28/12				
1/28/02[3]	248,704		41.52	1/28/12				
3/2/00[3]	1,428,658		30.16	3/2/10				

(table continued on following page)

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	Option Awards				Share and Unit Awards			
Name and Applicable Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units That Have Not Vested (#)	Market Value of Shares or Units That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
David R. Greenbaum								
3/31/08(1)		400,000	103.00	3/31/18	8,559	516,536		
3/31/08(2)							52,541	3,170,849
3/7/07(1)	3,818	15,274	121.58	3/7/17				
3/7/07(1)					4,936	297,888		
4/25/06(2)					34,308	2,070,488		
2/8/05(1)					1,000	60,350		
2/8/05(1)	15,206	10,139	70.30	2/8/15				
2/6/04(1)					1,000	60,350		
1/28/02(3)	48,211		41.29	1/28/12				
1/28/02(3)	39,557		41.40	1/28/12				
1/28/02(3)	39,444		41.52	1/28/12				
3/2/00(3)	589		30.16	3/2/10				
Joseph Macnow								
3/31/08(1)		100,000	103.00	3/31/18	9,129	550,935		
3/31/08(2)							38,212	2,306,094
3/7/07(1)	3,818	15,274	121.58	3/7/17				
3/7/07(1)					6,580	397,103		
7/27/06(2)					4,288	258,781		
4/25/06(2)					38,595	2,329,208		
4/25/06(1)					3,116	188,051		
2/8/05(1)					738	44,538		
2/8/05(1)	11,221	7,483	70.30	2/8/15				

2/6/04[1]	738	44,538

(table continued on following page)

	Option Awards				Share and Unit Awards			
Name and Applicable Grant Date	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units That Have Not Vested (#)	Market Value of Shares or Units That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)
Sandeep Mathrani								
3/31/08(1)		100,000	103.00	3/31/18	3,423	206,578		
3/31/08(2)							42,988	2,594,326
8/13/07(4)		400,000	104.49	8/13/17				
3/7/07(1)	3,818	15,274	121.58	3/7/17				
3/7/07(1)					3,291	198,612		
4/25/06(2)					51,461	3,105,671		
3/13/06(5)	66,304	134,619	93.73	3/13/16				
3/5/05(1)	3		41.42	3/5/15				
2/8/05(5)					11,281	680,808		
2/8/05(1)					800	48,280		
2/8/05(1)		8,111	70.30	2/8/15				
2/8/05(5)	40,000	203,793	70.30	2/8/15				
2/6/04(1)					800	48,280		

(1) These awards vest ratably over five years from the date of grant.

(2) Awards of OPP Units granted in 2008 vest ratably over two years (if performance criteria are met) beginning in March of 2012. Awards of OPP Units granted in 2006 are earned and vest ratably over three years beginning in March of 2009. 2008 OPP Units values are based on the December 31, 2008 market value of the total possible

2008 OPP Units that can be earned by the reporting person if performance criteria are achieved, however at such market value, no 2008 OPP Units would be earned. Approximately 2.37% of the total 2006 OPP Unit award to each executive represents OPP Units earned as a result of dividends paid with respect to units that vested in January 2007.

(3) *These awards vested ratably over three years from the date of grant.*

(4) *These awards vest ratably over three years beginning in August 2010.*

(5) *These awards were made pursuant to Mr. Mathrani s employment agreement entered into in 2005 and vest ratably over three years beginning in January of 2008.*

Aggregated Option Exercises in 2008 and Shares Vested

	Option Awards		**Stock Awards**	
Name	**Shares Acquired on Exercise (#)**	**Value Realized on Exercise ($)[5]**	**Number of Shares Acquired on Vesting (#)[6]**	**Value Realized on Vesting ($)[5][6]**
Steven Roth[1]	1,020,468	26,772,692	24,414	1,997,701
Michael D. Fascitelli[2]	765,351	23,492,985	21,451	1,757,997
David R. Greenbaum[3]	306,135	16,069,318	4,234	341,988
Joseph Macnow			4,991	411,534
Sandeep Mathrani[4]	67,265	1,839,452	3,223	260,369

(1) *Mr. Roth exercised options with respect to 1,020,468 Shares on December 8, 2008 with an exercise price of $32.89 per share and an average market price of $59.13 per share. The expiration date for these options was February 16, 2009.*

(2) *Mr. Fascitelli exercised options with respect to 765,351 Shares on December 17, 2008 with an exercise price of $32.89 per Share and an average market price of $63.59 per Share. The expiration date for these options was February 16, 2009.*

(3) *Mr. Greenbaum exercised options with respect to (a) 153,068 Shares on January 8, 2008 with an exercise price of $44.40 per Share and an average market price of $82.54 per Share, and (b) 153,067 Shares on August 8, 2008 with an exercise price of $32.89 per Share and an average market price of $99.74 per Share. The expiration date for the options exercised on January 8, 2008 was January 12, 2008. The expiration date for the options exercised on August 8, 2008 was February 16, 2009.*

(4) *Mr. Mathrani exercised options with respect to (a) 6,712 Shares on September 17, 2008 with an exercise price of $70.30 per Share and an average market price of $91.17 per Share; (b) 179 Shares on September 17, 2008 with an exercise price of $41.44 per Share and an average market price of $91.17 per Share (the expiration date for these options was March 5, 2012); (c) 20,374 Shares on September 18, 2008 with an exercise price of $70.30 per Share and an average market price of $92.84 per Share; (d) 30,000 Shares on September 19, 2008 with an exercise price of $70.30 per Share and an average market price of $101.88 per Share; and (e) 10,000 Shares on September 22, 2008 with an exercise price of $70.30 per Share and an average market price of $98.70. Except as indicated above, the expiration date for these options was February 8, 2015.*

(5) Values realized on exercise/vesting are based on: (1) for options, the difference between the exercise price and the average of the high and low price of our common shares on the applicable date if the resulting shares were held or, if the resulting shares were sold, the actual sale price for such shares; and (2) for Stock Awards, the average of the high and low price of our common shares on the date of vesting

(6) Stock Awards includes awards of Restricted Stock, Restricted Units and OPP Units.

Employee Retirement Plan

Effective December 31, 1997, the Company froze its employee retirement plan, which provided retirement benefits to full-time employees of the Company. Benefits under the plan vested upon the completion of five years of service for all eligible employees. However, employees do not earn any additional benefits after December 31, 1997. In addition, no new participants are eligible to enter the frozen plan. Accordingly, the only Covered Executives who participate in the Plan are Messrs. Roth, Fascitelli and Macnow. Annual retirement benefits are equal to 1% of the participant s base salary for each year of service. However, the portion of retirement benefits payable for service prior to plan participation is equal to 1% of the participant s base salary as of December 31 of the year before the participant began to participate in the plan for each year of the participant s past service. The retirement plan was terminated in 2008. Upon termination of the plan, Messrs. Roth, Fascitelli and Macnow were paid $645,343, $10,730 and $325,634, respectively, in satisfaction of amounts payable to them under the plan.

Deferred Compensation

The following table summarizes the contributions, earnings, withdrawals and balance for the Covered Executives for and at year-end 2008.

Non-Qualified Deferred Compensation (amounts in dollars)

Name	Type of Deferred Compensation Plan	Executive Contributions Last Fiscal Year(1)	Company Contributions in Last Fiscal Year	Aggregate Earnings (Loss) in Last Fiscal Year(2)	Aggregate Withdrawals / Distributions	Aggregate Balance at 12/31/08(3)
Steven Roth	Deferred Compensation Plan	2,164,901		(4,139,665)		18,125,421
Michael D. Fascitelli	Deferred Compensation Plan	1,930,620		(4,245,510)		24,709,712
David R. Greenbaum	Deferred Compensation Plan	1,949,221		(4,471,339)		12,466,738
Joseph Macnow	Deferred Compensation Plan	192,892		(444,235)		2,584,173
Sandeep Mathrani	Deferred Compensation Plan			66,436		899,618

(1) *Reflects the following amounts for each of the Covered Executives which are reported as compensation to such Covered Executive in the Summary Compensation Table for 2008: Mr. Roth, $1,015,711; Mr. Fascitelli, $1,010,784; Mr. Greenbaum, $1,710,156; Mr. Macnow, $9,166; and Mr. Mathrani, $9,647. These amounts represent the deferred portion for each of such Covered Executive s 2008 annual salary, restricted shares that vested in 2008, dividend equivalents and/or bonuses in 2008 for the prior year s performance.*

(2)

Contributions to the Vornado Realty Trust Non-Qualified Deferred Compensation Plans are credited with earnings based on the rate of return of various benchmark funds selected by the individual, some of which are based on the performance of the Company s securities.

(3) *All amounts contributed by a Covered Executive in prior years have been reported in the Summary Compensation Tables in our previously filed proxy statements in the year earned to the extent he was a Covered Executive in such year for the purposes of the SEC s executive compensation disclosure rules.*

EMPLOYMENT CONTRACTS

Each of the employment agreements, for our named Covered Executives who have an employment agreement, was amended on December 29, 2008 to comply with Internal Revenue Service regulations that became effective as of December 31, 2008.

Michael D. Fascitelli

Mr. Fascitelli had an employment agreement that commenced on December 2, 1996, pursuant to which he joined the Company as President. The employment agreement had an initial term of five years and expired on December 31, 2001. Effective January 1, 2002, the Company entered into a new employment agreement with Mr. Fascitelli for a five-year period through December 31, 2006. Pursuant to the 2002 employment agreement, on January 1, 2006, and on each January 1 thereafter, the employment term was and will be, automatically extended for one additional year unless either the Company or Mr. Fascitelli gives written notice not to extend the agreement, not less than 90 days before such date. The 2002 employment agreement provides that Mr. Fascitelli s annual base salary will not be decreased during the term and is currently $1,000,000. In accordance with the terms of his employment agreement, Mr. Fascitelli has also been given the use of a Company automobile.

The 2002 employment agreement also provides that, if his employment is terminated by the Company without cause or by him for good reason (as defined in the agreement to include, among other things, a change in his responsibilities, change in control of the Company, relocation of the Company s principal executive offices or the failure of the Company to comply with the terms of the agreement), (i) payment of his base salary shall continue for three years, offset in the second and third years for compensation received or deferred for services to any other employer, and (ii) benefits to him and his family shall continue for three years. The agreement further provides that, if his employment is terminated by him without good reason or by the Company for cause (as defined in the agreement to include conviction of, or plea of guilty or nolo contendere to, a felony, failure to perform his duties or willful misconduct), payment of his salary will cease.

David R. Greenbaum

Mr. Greenbaum has an employment agreement that commenced on April 15, 1997, pursuant to which he serves as President New York Office Division. The employment agreement provides that, commencing on April 30, 2000, and on each April 30 thereafter, the employment term shall automatically be extended for one additional year unless either the Company or Mr. Greenbaum gives written notice not to extend the agreement, at least 90 days before such date. The employment agreement provides that Mr. Greenbaum s base salary shall not be reduced during the term of the agreement. Mr. Greenbaum s current annual base salary is $1,000,000. Mr. Greenbaum s employment agreement provides that he will be entitled to participate at a level commensurate with his position in any equity and/or incentive compensation with respect to senior executives of the Company. In accordance with the terms of his employment agreement, he has also been given the use of a Company automobile.

The agreement also provides that, if Mr. Greenbaum s employment is terminated by the Company without cause or by him for good reason (as defined in the agreement to include, among other things, a change in his responsibilities, change in control of the Company, relocation of the New York Office Division s principal executive offices, the failure of the Company to comply with the terms of the agreement or the failure of the Company to renew the agreement upon expiration), Mr. Greenbaum will receive (a) a lump-sum payment of three times the sum of (i) his annual base compensation and (ii) the average of the annual bonuses earned by him in the two fiscal years ending immediately prior to his termination and (b) continued provision of benefits to him and his family for three years. The agreement further provides that, if his employment is terminated by him without good reason or by the Company for cause (as defined in the agreement to include conviction of, or plea of guilty or nolo contendere to, a felony, failure to perform his duties or willful misconduct), payment of his salary will cease.

Joseph Macnow

Mr. Macnow has had an employment agreement with the Company since November 21, 1980, pursuant to which he serves as Executive Vice President Finance and Administration and Chief Financial Officer. His Amended and Restated Employment Agreement, dated as of July 27, 2006, provides that on each December 31 the employment term shall automatically be extended for one additional year unless either the Company or Mr. Macnow gives written notice not to extend the agreement 90 days before such date. Mr. Macnow s employment agreement provides that his base salary will not be reduced during the term of the agreement and is currently at $1,000,000. Mr. Macnow s agreement also provides for his use of a Company automobile.

The agreement also provides that, if Mr. Macnow s employment is terminated by the Company without cause or by him for good reason (as defined in the agreement to include, among other things, a change in his responsibilities, change in control of the Company, relocation of the Company s principal executive offices, the failure of the Company to comply with the terms of the agreement or the failure of the Company to renew the agreement upon expiration), he will receive: (a) a lump-sum payment of three times the sum (not to exceed $3.3 million, in the aggregate) of (i) his annual base compensation plus (ii) the average of the annual bonuses earned by him in the two fiscal years ending immediately prior to his termination; (b) immediate vesting in any equity awards granted to him by the Board; and (c) continued provision of benefits to him and his family for three years. The agreement further provides that, if Mr. Macnow s employment is terminated by him without good reason or by the Company for cause (as defined in the agreement to include conviction of, or plea of guilty or nolo contendere to, a felony, failure to perform his duties or willful misconduct), payment of salary will cease.

Sandeep Mathrani

Mr. Mathrani serves as Executive Vice President Retail Division of the Company. His employment agreement entered into in 2002 expired in March 2005. As of January 1, 2005, the Company and Mr. Mathrani entered into a new employment agreement through January 1, 2010, with a term that automatically extends for additional one-year periods unless terminated on at least six months prior notice by either the Company or Mr. Mathrani. The employment agreement provides that Mr. Mathrani s annual base salary will not be decreased during the term and is currently $1,000,000.

In connection with his employment agreement, the Company granted Mr. Mathrani 16,836 restricted Shares and options to acquire 300,000 of the Company s Shares at $71.275 per share. In addition, pursuant to his employment agreement, 200,000 options were granted to him on March 13, 2006 at an exercise price of $94.16 per share. One-third of these restricted Share and option grants vested or will vest on each of January 20, 2008, 2009 and 2010. The vesting of these restricted Shares and options granted pursuant to his employment agreement will accelerate upon certain events including a change of control of the Company or a sale of its retail division.

Mr. Mathrani s employment agreement also provides that, if his employment is terminated by the Company without cause or by him due to a material breach of the agreement by the Company (a material breach is any failure by the Company to comply with any material provision of the agreement that is not cured within 30 days of written notice by Mr. Mathrani of non-compliance), Mr. Mathrani will immediately vest in any stock options and restricted Shares granted to him by the Company. In addition, in such event, Mr. Mathrani will receive a lump-sum payment equal to (i) his annual base compensation plus (ii) the average of the annual bonuses earned by him in the two fiscal years ending immediately prior to his termination. The agreement further provides that, if his employment is terminated by him without good reason or by the Company for cause (as defined in the agreement to include conviction of, or plea of guilty or nolo contendere to, a felony, failure to perform his duties or willful misconduct), payment of his salary and all other obligations of the Company under the agreement will cease. Under his employment agreement, Mr. Mathrani also receives the use of a Company automobile.

SEVERANCE AND CHANGE OF CONTROL ARRANGEMENTS

Of our Covered Executives, Messrs. Fascitelli, Greenbaum, Macnow and Mathrani have employment agreements that provide for certain payments in the event of a termination of employment, including one following a change of control. None of Mr. Roth or any of our other trustees (other than Mr. Fascitelli) has an employment agreement or other severance arrangement. Our Omnibus Share Plans, which govern all of our equity-based awards, provide in certain circumstances that equity awards that have been granted but are still subject to vesting will vest automatically or at the discretion of our Board in certain circumstances. In particular, on a change of control, all equity awards either vest automatically or at the discretion of our Board. In addition, our deferred compensation plans provide that all applicable deferred compensation is paid out to an executive or trustee upon his or her departure from the Company. Of our Covered Executives, only Messrs. Roth, Fascitelli and Macnow were participants in our now-terminated retirement plan. Benefits under the retirement plan for these persons were fully vested at the time of the plan s termination. In addition, upon the death or disability of an executive, that executive, or his or her estate, may be entitled to insurance benefits under policies with third parties maintained by us.

With regard to our employment agreements, these agreements are negotiated on a case-by-case basis. As discussed under Compensation Discussion and Analysis, we believe that in certain circumstances such agreements are in the best interests of the Company and our shareholders to ensure the continued dedication of such employees, notwithstanding the possibility, threat or occurrence of a change of control. Generally, our agreements govern severance payments under the following circumstances: (1) termination of the employee for cause ; (2) termination by the employee for good reason (such as breach of the employment agreement by the Company or, in certain cases, if a change of control occurs and the employee then decides to terminate his employment) or by the Company without cause ; (3) termination following a disability; (4) termination due to death; and (5) in certain cases, termination upon retirement after the employee reaches the age of 65. For those of our Covered Executives who have employment agreements, the definitions of good reason and cause are more fully described above, under Employment Contracts. Reference should be made to the actual employment agreements for the specific terms. Generally, however, on any termination, the applicable executive officer will receive his accrued and unpaid salary and other benefits until the date of termination. For cause terminations by the Company, the employee will not receive any additional payment. If the employee terminates his employment for good reason or the Company terminates the employment without cause, the employee typically receives an additional payment (or payments over a specified period) that may vary from one year of salary and bonus to up to three years of salary and bonus. For terminations due to disability or death, executives who have this provision in their applicable agreement typically receive between one year of salary or bonus and three years of salary. In certain cases, the employment agreements also provide for continued benefits for specified periods. None of our Covered Executives, who is a party to an employment agreement, is currently eligible for retirement under his employment agreements. Severance payments following a change of control under employment agreements are generally dual trigger, meaning that the change of control must occur and be followed by a termination of employment. We believe that this provision appropriately achieves the benefits of ensuring the dedication of employees in connection with a change of control without providing for an automatic payment under the employment agreement for a change of control.

Our equity-based compensation awards are governed by the individual award agreements issued under our Omnibus Share Plans. Generally, for cause terminations, no unvested awards are accelerated but employees are entitled to keep awards that have already vested if they exercise options or similar awards within specified periods after termination. For terminations by the employee for good reason or by the Company without cause, unvested OPP awards then vest, but other then-unvested equity awards terminate in a manner similar to that of cause terminations. In the agreements governing our OPP Awards, good reason includes: (1) if the party is subject to an employment agreement, the definition used in the employment agreement and (2) if there is no employment agreement or definition, (a) the assignment of duties or the imposition of a reporting obligation materially and adversely inconsistent to those existing prior to such change, (b) a material reduction in base salary or failure of the Company to pay such salary, (c) the relocation of such party, without consent, (d) a purported termination for cause not in accordance with the definition thereof, and (e) a reduction in benefits not applied to all officers of a similar level. In Mr. Macnow s case, however, his employment agreement provides that on any departure from the Company except as a result of a cause termination, his unvested equity awards then vest. Upon a change of control, all unvested equity awards then vest. We believe that a single trigger for vesting of equity awards following a change of control is appropriate due to the change in the nature of the form of award caused by a change of control. In the case of retirement after the age of 65, options (but no other equity-based award), automatically vest, except that the options granted to Mr. Roth on March 31, 2008 will continue to vest over five years subject to Mr. Roth s continued service. In the case of a disability, option and OPP awards vest and in the case of death, all equity awards vest.

The information presented below reflects the estimated payments that each of our Covered Executives would have received under the employment termination scenarios (including, following a change of control) if employment termination were to have occurred on December 31, 2008. In calculating the value of equity-based awards, the presentation uses a price per share of $60.35, the closing price of our common shares on the New York Stock Exchange on the last trading day in 2008. In addition, in estimating bonuses payable for the calculation of severance payments, we have used the actual bonuses paid in 2009 for 2008 performance (including, for these presentation purposes only, the value of all Restricted Unit granted as a bonus in the first quarter of 2009). The actual amounts that would be paid on any termination of employment can only be determined at the time of any actual separation from the Company.

Steven Roth

(amounts in dollars)

Payments on Termination	**Voluntary Termination on Retirement**[1]	**Involuntary For Cause Termination**	**Involuntary Not For Cause Termination / Good Reason Termination**	**Voluntary Termination Following a Change of Control**[2]	**Death**	**Disability**
Bonus						
Severance						
Unvested Options						
Unvested Restricted Stock & LTIP Units				3,812,672	3,812,672	
Unvested OPP Units			11,646,343	11,646,343	11,646,343	
Benefits Continuation						
Total			11,646,343	15,459,015	15,459,015	

Michael D. Fascitelli

(amounts in dollars)

	Voluntary	**Involuntary**	**Involuntary Not For Cause Termination / Good**	**Voluntary Termination Following a**

Payments on Termination	Termination on Retirement[1]	For Cause Termination	Reason Termination	Change of Control[2]	Death	Disability
Bonus					1,000,000	
Severance[3]			3,000,000	3,000,000	1,000,000	3,000,000
Unvested Options						
Unvested Restricted Stock & LTIP Units				3,681,772	3,681,772	
Unvested OPP Units			11,646,343	11,646,343	11,646,343	
Benefits Continuation			54,633	54,633	18,211	
Total			14,700,976	18,382,748	17,346,326	3,000,000

David R. Greenbaum

(amounts in dollars)

Payments on Termination	Voluntary Termination on Retirement(1)	Involuntary For Cause Termination	Involuntary Not For Cause Termination / Good Reason Termination	Voluntary Termination Following a Change of Control(2)	Death	Disability
Bonus			1,000,000	1,000,000	1,000,000	1,000,000
Severance			6,750,000	6,750,000	1,000,000	
Unvested Options						
Unvested Restricted Stock & LTIP Units				935,123	935,123	
Unvested OPP Units			2,070,488	2,070,488	2,070,488	
Benefits Continuation(4)					44,322	132,966
Total			9,820,488	10,755,611	5,049,933	1,132,966

Joseph Macnow

(amounts in dollars)

Payments on Termination	Voluntary Termination on Retirement(1)	Involuntary For Cause Termination	Involuntary Not For Cause Termination / Good Reason Termination	Voluntary Termination Following a Change of Control(2)	Death	Disability
Bonus			800,000	800,000	800,000	800,000
Severance			3,300,000	3,300,000	1,000,000	
Unvested Options						
Unvested Restricted Stock & LTIP Units			1,225,165	1,225,165	1,225,165	

Unvested OPP Units	2,587,989	2,587,989	2,587,989	
Benefits Continuation(4)	411,675	411,675	137,225	411,675
Total	8,324,829	8,324,829	5,750,379	1,211,675

Sandeep Mathrani

(amounts in dollars)

Payments on Termination	**Voluntary Termination on Retirement(1)**	**Involuntary For Cause Termination**	**Involuntary Not For Cause Termination / Good Reason Termination(5)**	**Voluntary Termination Following a Change of Control(2)**	**Death**	**Disability**
Bonus						
Severance			2,150,000			
Unvested Options						
Unvested Restricted Stock & LTIP Units				1,182,558	1,182,558	
Unvested OPP Units			3,105,671	3,105,671	3,105,671	
Benefits Continuation						
Total			5,255,671	4,288,229	4,288,229	

(1) *Payments upon retirement from the Company are available to those named executive officers who retire after reaching the age of 65. At December 31, 2008, the only named executive officer who, if he had retired at that date would have so qualified, is Mr. Roth. Except as otherwise provided in these tables, no payments are due upon any other voluntary termination prior to retirement.*

(2) *Unvested grants of options, restricted shares, LTIPs and OPP Units will vest automatically upon a change of control without the need for termination of employment.*

(3) *The severance payment shown for disability is the maximum possible payout. The total amount payable to Mr. Fascitelli upon disability is limited to the greater of (a) six months of benefits, and (b) benefits until such point as Mr. Fascitelli is eligible for long-term disability with the total payment not to exceed an amount equal to three years of salary.*

(4) *Information presented as to the costs of benefits is based on an estimated total annual cost of benefits for such named executive officer. In certain cases, continued benefits made available following a termination will be less than the total benefits currently payable.*

(5) *Upon any termination without cause (as defined), Mr. Mathrani is entitled to the use of an office and secretarial support for 90 days.*

COMPENSATION OF TRUSTEES

Trustees who are not officers of the Company receive an annual retainer and additional meeting fees for each Board or committee meeting attended. Messrs. Roth and Fascitelli received no compensation for their service as trustees. The non-management members of the Board of Trustees are compensated as follows: (1) each such member receives an annual retainer equal to $60,000; (2) each such member receives an annual grant of Restricted Shares or Restricted Units with a value equal to $30,000 at the date of grant (not to be sold while such member is a trustee, except in certain circumstances); (3) the Audit Committee Chairman receives an annual retainer of $50,000 and other Audit Committee members receive an annual retainer of $25,000; (4) the Chairman and members of all other committees (other than the Executive Committee) receive an annual retainer of $10,000 and $5,000, respectively; and (5) each such member receives a meeting fee of $1,000 for each Board and committee meeting attended.

The following table sets forth the compensation that was earned or paid in 2008 for the non-management members of our Board.

Name	Fees Earned or Paid in Cash $	Share Awards $(1)	Total $
Candace K. Beinecke	68,500	7,697	76,197
Anthony W. Deering	103,000	20,498	123,498
Robert P. Kogod	65,000	21,046	86,046
Michael Lynne	77,125	20,498	97,623
David Mandelbaum	73,000	21,046	94,046
Robert H. Smith	41,500	207,223	248,723
Ronald G. Targan	105,000	20,498	125,498
Richard R. West	131,875	21,046	152,921
Russell B. Wight, Jr.	78,000	20,114	98,114

(1) Information presented in this column reflects the dollar amount recognized for financial statement purposes for the year ended December 31, 2008 in accordance with SFAS 123R of awards made pursuant to our 2002 Omnibus Share Plan. Pursuant to the rules and regulations of the SEC, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. Assumptions used in the calculation of these amounts are included in note 11 of our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the SEC. Dividends are paid on both the vested and unvested portion of Restricted Share and Restricted Unit awards. For information concerning the aggregate equity awarded to Trustees under our Omnibus Share Plans, see Note 8 to the Principal Security Holders table. Amounts for Robert H. Smith include values attributable to grants to Mr. Smith prior to May 2008 while he served as an employee of the Company.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee, consisting of Dr. West and Messrs. Lynne and Targan, grants awards under the Company s 2002 Omnibus Share Plan, as amended, and makes all other executive compensation determinations. Messrs. Roth and Fascitelli are the only officers or employees of the Company who are also members of the Board. There are no interlocking relationships involving the Company s Board which require disclosure under the executive compensation rules of the SEC.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Review and Approval of Related Person Transactions

We review all relationships and transactions in which we and our significant shareholders, trustees and our executive officers or their respective immediate family members are participants (including transactions required to be disclosed under Item 404 of Regulation S-K) to determine whether such persons have a direct or indirect material interest in the transaction. Our policy (as set forth in our Code of Business Conduct and Ethics) is to determine whether such an interest exists, applying the standards set forth in Item 404 of Regulation S-K and our Corporate Governance Guidelines. Our legal and financial staff is primarily responsible for the development and implementation of processes and controls to obtain information from our significant shareholders, trustees and our executive officers with respect to related person transactions and for then determining, based on the facts and circumstances, whether we or a related person has a direct or indirect material interest in the transaction. As required under SEC rules, transactions that are determined to be directly or indirectly material to the Company or a related person are disclosed in our proxy statement. We also disclose transactions or categories of transactions we consider in determining that a trustee is independent. In addition, our Audit Committee and/or our Corporate Governance and Nominating Committee reviews and, if appropriate, approves or ratifies any related person transaction that is required to be disclosed. These committees, in the course of their reviews of a disclosable related-party transaction consider: (1) the nature of the related person s interest in the transaction; (2) the material terms of the transaction; (3) the importance of the transaction to the related person; (4) the importance of the transaction to the Company; (5) whether the transaction would impair the judgment of a trustee or executive officer to act in the best interest of the Company; and (6) any other matters the Committee deems appropriate.

Transactions Involving Interstate Properties

As of March 13, 2009, Interstate and its partners beneficially owned approximately 10% of our outstanding Shares and approximately 27% of Alexander s outstanding common stock. Interstate is a general partnership in which Steven Roth, David Mandelbaum and Russell B. Wight, Jr. are the partners. Mr. Roth is our Chairman of the Board and Chief Executive Officer, the Managing General Partner of Interstate, and the Chairman of the Board and Chief Executive Officer of Alexander s. Messrs. Mandelbaum and Wight are trustees of the Company and also directors of Alexander s.

We manage and lease the real estate assets of Interstate pursuant to a management agreement for which we receive an annual fee equal to 4% of base rent and percentage rent and certain other commissions. The management agreement has a term of one year and automatically renews unless terminated by either of the parties on 60 days notice at the end of the term. We believe, based upon comparable fees charged by other real estate companies, that the terms are fair to us. We earned $803,000 in management fees under the management agreement for the year ended December 31, 2008.

Transactions Involving Alexander s

As of March 13, 2009, Interstate and its three general partners Steven Roth (Chairman of the Board and Chief Executive Officer of the Company and Alexander s), David Mandelbaum (a trustee of the Company and director of Alexander s) and Russell B. Wight, Jr. (a trustee of the Company and director of Alexander s) owned approximately 10% of our outstanding Shares and approximately 27% of Alexander s common stock. The Company owns approximately 32% of the outstanding common stock of Alexander s.

We manage, lease and develop Alexander s properties pursuant to the agreements described below, which expire in March of each year and renew automatically.

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

In addition, we are entitled to a development fee of 6% of development costs, as defined, with minimum guaranteed fees of $750,000 per annum. During the year ended December 31, 2008, we recognized $4,101,000 of development fee income.

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

Other Agreements. Building Maintenance Services, our wholly-owned subsidiary, supervises the cleaning, engineering and security services at Alexander s Lexington Avenue and Kings Plaza properties for an annual fee of the cost for such services plus 6%. During the year ended December 31, 2008, we recognized $2,083,000 of income under these agreements.

During the year ended December 31, 2008, Alexander s incurred $2,946,000 of leasing fees, $6,520,000 of development fees, $3,000,000 for management fees and $4,146,000 for property management and other fees under its agreements with the Company or BMS.

At December 31, 2008, Alexander s owed the Company (i) $31,079,000 in leasing fees, (ii) $11,496,000 in development fees; and (iii) $1,511,000 in management, property management and cleaning fees.

Certain Other Transactions or Relationships

In the year ended December 31, 2008, we paid Mr. Kogod fees of $146,858 for consulting services rendered to us. This consulting arrangement expired in May 2008.

With respect to our building at 888 Seventh Avenue, we are the lessee under a ground lease that expires in 2067. The lessor under the ground lease is a limited liability company that is owned by several members, some of which include David Mandelbaum (one of our trustees), his children, his brother, his sister and his sister s family. The underlying fee property was purchased by the parents of Mr. Mandelbaum in 1961 and placed into trusts at that time for the benefit of their children and grandchildren. Since 1961, this property has been owned 20% by these trusts and, when the trusts expired, descendants of Mr. Mandelbaum s parents. The remaining 80% of the limited liability company is owned by two unrelated families. One family owns 55% of the limited liability company and is its managing member. Mr. Mandelbaum s personal interest in the property is an indirect 2.66% interest. We acquired the building at 888

Seventh Avenue (and the tenant s interest under the ground lease) from an unrelated party in 1998. The limited liability company owning the ground receives under the ground lease an aggregate payment of $3,350,000 a year in rent.

On December 23, 2005, pursuant to a credit agreement (the Roth Credit Agreement) entered into with us on November 16, 1999, Mr. Roth borrowed $13,122,500 from us as evidenced by a promissory note in favor of the Company (the Note). The Roth Credit Agreement provides that the Company will provide loans to Mr. Roth of up to $15 million in the aggregate at any time outstanding for so long as he remains employed by the Company. Pursuant to this Roth Credit Agreement, the Note is secured, bears annual interest of 4.45% (the applicable

Federal rate on December 23, 2005) and matures December 23, 2011. On December 31, 2008, the balance of this loan was $13,122,500 (the largest outstanding balance during 2008).

Other Transactions Considered in Determining Trustee Independence

Michael Lynne, a trustee of the Company, served as the Co-Chairman and Co-Chief Executive Officer of New Line Cinema Corporation until early 2008. New Line Cinema Corporation is a tenant at our building at 888 Seventh Avenue in New York City. During 2008, we recorded rent from New Line Cinema Corporation in the amount of $3,775,254 under its lease. The lease was negotiated prior to our purchasing the building and was renewed prior to Mr. Lynne joining our Board. Unique Features, of which Mr. Lynne is a principal, shares space with New Line Cinema Corporation at no direct cost to Unique Features.

REPORT OF THE AUDIT COMMITTEE

The Audit Committee s purposes are to (i) assist the Board in its oversight of (a) the integrity of the Company s financial statements, (b) the Company s compliance with legal and regulatory requirements, (c) the qualifications and independence of the Company s independent registered public accounting firm, and (d) the performance of the Company s independent registered public accounting firm and the Company s internal audit function; and (ii) prepare an Audit Committee report as required by the SEC for inclusion in the Company s annual proxy statement. The function of the Audit Committee is oversight. The Board of Trustees, in its business judgment and upon the recommendation of the Corporate Governance and Nominating Committee, has determined that all members of the Audit Committee are independent, as required by applicable listing standards of the NYSE, as currently in effect, and in accordance with the rules and regulations promulgated by the SEC. The Board of Trustees has also determined that each member of the Audit Committee is financially literate and has accounting or related financial management expertise, as such qualifications are defined under the rules of the NYSE, and that each of Dr. West and Mr. Deering is an audit committee financial expert within the meaning of the rules of the SEC. The Audit Committee operates pursuant to an Audit Committee Charter.

Management is responsible for the preparation, presentation and integrity of the Company s financial statements and for the establishment and effectiveness of internal control over financial reporting, and for maintaining appropriate accounting and financial reporting principles and policies and internal controls and procedures that provide for compliance with accounting standards and applicable laws and regulations. The independent registered public accounting firm, Deloitte & Touche LLP, is responsible for planning and carrying out a proper audit of the Company s annual financial statements in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), expressing an opinion as to the conformity of such financial statements with generally accepted accounting principles and auditing the effectiveness of internal control over financial reporting.

In performing its oversight role, the Audit Committee has considered and discussed the audited consolidated financial statements with management and the independent registered public accounting firm. The Audit Committee has also discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended by Statement on Auditing Standards No. 90, Audit Committee Communications. The Audit Committee has received the written disclosures and the letter from the independent registered public accounting firm required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, as currently in effect. The Audit Committee has also discussed with the independent registered public accounting firm its independence. The independent registered public accounting firm has free access to the Audit Committee to discuss any matters the firm deems appropriate.

Based on the reports and discussions described in the preceding paragraph and, subject to the limitations on the role and responsibilities of the Audit Committee referred to below and in the Audit Committee Charter in effect during 2008, the Audit Committee recommended to the Board of Trustees that the audited consolidated financial statements be included in the Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Members of the Audit Committee rely without independent verification on the information provided to them and on the representations made by management and the independent registered public accounting firm. Accordingly, the Audit Committee s oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles or appropriate internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee s considerations and discussions referred to above do not assure that the audit of the Company s consolidated financial statements has been carried out in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States), that the consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States of America, that Deloitte & Touche LLP is in fact independent or the effectiveness of the Company s internal controls.

DR. RICHARD R. WEST
ANTHONY W. DEERING
RONALD G. TARGAN

PROPOSAL 2: RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, the Deloitte Entities) have been the Company s independent registered public accounting firm since 1976. The Audit Committee selected the Deloitte Entities as the Company s independent registered public accounting firm for the fiscal year ending December 31, 2009 as a result of a process most recently undertaken in 2008 and by which the Audit Committee and management solicited and received proposals from and met with an interviewed several other independent registered public accounting firms. The Audit Committee initiated this process after consultation with management because it determined that there were possible benefits to be considered with regard to cost, audit firm independence and obtaining a fresh look at the Company s financial accounting and internal controls processes. This process was not related to the quality of services provided by the Deloitte Entities. After consideration of each of the proposals, the Audit Committee retained the Deloitte Entities as the Company s independent registered public accounting firm and has determined to continue that retention for 2009. Among other matters, the Audit Committee concluded that current requirements for audit partner rotation, limitation of services and other regulations affecting the audit engagement process will substantially assist in supporting auditor independence. As a matter of good corporate governance, the Audit Committee has determined to submit its selection to shareholders for ratification. In the event that this selection of an independent registered public accounting firm is not ratified by the affirmative vote of a majority of the votes cast on the proposal, the Audit Committee will review its future selection of an independent registered public accounting firm but will retain all rights of selection.

Even if the selection of the Deloitte Entities is ratified at the Annual Meeting, the Audit Committee, in its discretion, may change the appointment at any time during the year.

We expect that representatives of the Deloitte Entities will be present at the Annual Meeting. They will have an opportunity to make a statement if they so desire, and will be available to respond to appropriate questions.

Audit Fees

The aggregate fees billed by the Deloitte Entities for the years ended December 31, 2008 and 2007, for professional services rendered for the audits of the Company s annual consolidated financial statements included in the Company s Annual Reports on Form 10-K, for the reviews of the consolidated interim financial statements included in the Company s Quarterly Reports on Form 10-Q and reviews of other filings or registration statements under the Securities Act of 1933 and Securities Exchange Act of 1934 during those fiscal years were $4,409,000 and $5,067,000, respectively. Audit fees for the years ended December 31, 2008 and 2007 include $52,000 and $1,075,000 for the audit of Americold Realty Trust of which the other shareholders of Americold Realty Trust paid 52%. The Company sold its interest in Americold on March 31, 2008. During 2008 and 2007, audit fees include the attestation report on the effectiveness of internal control over financial reporting, as required by the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley), Section 404.

Audit-Related Fees

The aggregate fees billed by the Deloitte Entities for the years ended December 31, 2008 and 2007 for professional services rendered that are related to the performance of the audits or reviews of the Company s consolidated financial statements which are not reported above under Audit Fees were $3,704,000 and $3,004,000, respectively. Audit-Related Fees generally include fees for stand-alone audits of subsidiaries, due diligence associated with mergers/acquisitions and Sarbanes-Oxley, Section 404 pre-implementation assistance.

Tax Fees

The aggregate fees billed by the Deloitte Entities for the years ended December 31, 2008 and 2007 for professional services rendered for tax compliance, tax advice and tax planning were $1,252,000 and $912,000, respectively. Tax Fees generally include fees for tax consultations regarding return preparation and REIT tax law compliance.

All Other Fees

The aggregate fees billed by the Deloitte Entities for the years ended December 31, 2008 and 2007 for professional services rendered other than those described above under Audit Fees, Audit-Related Fees and Tax Fees were $0 and $0, respectively. All Other Fees generally includes fees for consultations relating to systems review.

Pre-approval Policies and Procedures

In May 2003, the Audit Committee established a policy of reviewing and approving engagement letters with the Deloitte Entities for the services described above under Audit Fees before the provision of those services commences. For all other services, the Audit Committee has detailed policies and procedures pursuant to which it has pre-approved the use of the Deloitte Entities for specific services for which the Audit Committee has set an aggregate quarterly limit of $250,000 on the amount of services that the Deloitte Entities can provide the Company. Any services not specified that exceed the quarterly limit, or which would cause the amount of total services provided by the Deloitte Entities to exceed the quarterly limit, must be approved by the Audit Committee Chairman before the provision of such services commences. The Audit Committee also requires management to provide it with regular quarterly reports of the amount of services provided by the Deloitte Entities. Since the adoption of such policies and procedures, all of such fees were approved by the Audit Committee in accordance therewith.

The Board of Trustees recommends that you vote FOR the ratification of the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for 2009.

Unless you direct otherwise in your proxy, proxies will be voted for the proposal. The affirmative vote of holders of a majority of the votes cast on the proposal is required for its approval. Abstentions and broker non-votes will have no effect on the result of this vote.

PROPOSAL 3: SHAREHOLDER PROPOSAL RELATING TO A CHANGE IN THE VOTING STANDARD FOR TRUSTEE ELECTIONS

In accordance with the rules of the SEC, we have set forth below a shareholder proposal submitted on behalf of the United Brotherhood of Carpenters Pension Fund (for the purposes of this proposal, the shareholder proponent), along with the supporting statement of the shareholder proponent, for which the Company and the Board accept no responsibility. The shareholder proposal is required to be voted upon at the annual meeting only if properly presented at the Annual Meeting by or on behalf of the shareholder proponent. As explained below, the Board of Trustees recommends that you vote AGAINST the shareholder proposal.

Director Election Majority Vote Standard Proposal

Resolved: That the shareholders of Vornado Realty Trust (Company) hereby request that the Board of Trustees initiate the appropriate process to amend the Company s governance documents (charter or bylaws) to provide that trustee nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders, with a plurality vote standard retained for contested trustee elections, that is, when the number of trustee nominees exceeds the number of board seats.

Supporting Statement: In order to provide shareholders a meaningful role in trustee elections, the Company s trustee election vote standard should be changed to a majority vote standard. A majority vote standard would require that a nominee receive a majority of the votes cast in order to be elected. The standard is particularly well-suited for the vast majority of trustee elections in which only board nominated candidates are on the ballot. We believe that a majority vote standard in board elections would establish a challenging vote standard for board nominees and improve the performance of individual trustees and entire boards. The Company presently uses a plurality vote standard in all trustee elections. Under the plurality vote standard, a nominee for the board can be elected with as little as a single affirmative vote, even if a substantial majority of the votes cast are withheld from the nominee.

In response to strong shareholder support for a majority vote standard in director elections, a strong majority of the nation s leading companies, including Intel, General Electric, Motorola, Hewlett-Packard, Morgan Stanley, Home Depot, Gannett, Marathon Oil, and Pfizer, have adopted a majority vote standard in company Bylaws or articles of incorporation. Additionally, these companies have adopted director resignation policies in their bylaws or corporate governance policies to address post-election issues related to the status of director nominees that fail to win election. Other companies have responded only partially to the call for change by simply adopting post-election director resignation policies that set procedures for addressing the status of director nominees that received more withhold votes than for votes. At the time of the submission of this proposal, our Company and its board had not taken either action.

We believe that a post-election trustee resignation policy without a majority vote standard in company bylaws or articles is an inadequate reform. The critical first step in establishing a meaningful majority vote policy is the adoption of a majority vote standard. With a majority vote standard in place, the board can then take action to develop a post-election procedure to address the status of trustees that fail to win election. A majority vote standard combined with a post-election trustee resignation policy would establish a meaningful right for shareholders to elect trustees, and reserve for the board an important post-election role in determining the continued status of an unelected trustee. We urge the Board to take this important step in establishing a majority vote standard in the Company s governance documents.

Board of Trustees Statement Opposing Shareholder Proposal

The Board of Trustees has carefully considered the proposal and, for the reasons described below, does not believe that it is in the best interests of the Company and its shareholders to provide for the election of trustees by a majority of the votes cast.

The Company currently elects its trustees each year by a plurality-voting standard. Under plurality voting, nominees who receive the most affirmative votes are elected to the Board. Although the proponent states that under the plurality standard, a nominee can be elected with as little as a single affirmative vote, as a practical matter, all of the trustees have always been elected by a vast majority of the shares cast. In other words, this proposal, if implemented, would not have had any impact on the outcome of any of the elections of our trustees to date.

Although a number of corporations have moved to a majority-vote standard in recent years, our Board is not following this path for several reasons.

First, moving to majority election of trustees would have no impact on the ability of shareholders to propose an alternate slate of trustees in a proxy contest under the current form of majority election of directors being adopted by corporations and approved by proponents and proxy advisory firms, contested elections remain under the plurality-voting standard. Thus, failing to take this action will have no effect should our shareholders wish to replace any of the existing trustees with new candidates.

Second, failure to adopt majority election of trustees also has no effect on the ability of shareholders to express disapproval of Board actions. The withhold vote is now a well-established means of registering dissatisfaction, and there is no question that a substantial withhold vote would send a message and cause our Board to examine the reasons for the dissatisfaction. However, use of the withhold vote, rather than causing one or more trustees not to be elected, provides the Board with the flexibility to determine whether such a vote was intended only to send a message to which the Board should react, or was an effort to remove a particular trustee from the Board.

Finally, the Board is concerned that the majority-vote requirement contemplated by the proposal would significantly increase the influence of stockholder advisory firms and certain activist shareholders, whose interests and agenda may differ from those of our shareholders generally. Under majority election, because of the increased threat of one or more trustees not being reelected in a noncontested election, the Board may be forced either to follow the dictates of special interest groups, or to engage in expensive and distracting solicitation campaigns at each annual meeting for matters that generally are only peripherally related to the best interests of our Company and its shareholders. Furthermore, in a depressed market environment, a majority-vote requirement could create the potential for hostile parties, who may not have the best interests of the Company and all its shareholders in mind, to dictate inexpensively the future of the Board and the Company. Our Board fully appreciates the importance of the Annual Meeting in allowing shareholders the opportunity to put forward specific concerns they may have. At the same time, the Board does not believe that the only means of expressing that concern is the potential expulsion of one or more trustees from the Board should a hostile party solicit votes or should such Board members determine not to implement a shareholder proposal which is what the use of the majority-election standard, as opposed to the withhold vote, could result in. This situation is exacerbated by the failure of many retail holders to return voting instructions, and the Company s inability to contact such holders directly, the potential elimination of broker voting for trustees, the practices of empty voting and stock borrowing and the fact that many institutional holders routinely delegate their voting decisions to proxy advisory firms, without considering the merits of the matter at issue or the impact of following the recommendation. Our Board members believe it is their duty to retain as much flexibility to consider and negotiate these matters for the best interests of the Company and all its shareholders rather than effectively abdicate these duties to influential special interests.

The Board of Trustees unanimously recommends a vote AGAINST the proposal relating to the change in the voting standard.

The affirmative vote of a majority of all the votes cast at the Annual Meeting, assuming a quorum is present, is necessary for approval of this proposal. Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will count towards the presence of a quorum. Shareholder approval of this proposal would not result in a change to our Bylaws because this is only a recommendation to the

Board of Trustees.

PROPOSAL 4: SHAREHOLDER PROPOSAL REGARDING THE APPOINTMENT OF AN INDEPENDENT CHAIRMAN

In accordance with the rules of the SEC, we have set forth below a shareholder proposal submitted on behalf of the Central Laborers Pension Fund (for the purposes of this proposal, the shareholder proponent), along with the supporting statement of the shareholder proponent, for which the Company and the Board accept no responsibility. The shareholder proposal is required to be voted upon at the annual meeting only if properly presented at the Annual Meeting by or on behalf of the shareholder proponent. As explained below, the Board of Trustees recommends that you vote AGAINST the shareholder proposal.

Proposal Regarding the Appointment of an Independent Chairman

Resolved: That the shareholders of Vornado Realty Trust (Vornado or the Company) ask the Board of Trustees to adopt a policy that the board s chairman be an independent director who has not previously served as an executive officer of Vornado. The policy should be implemented so as not to violate any contractual obligation. The policy should specify (a) how to select a new independent chairman if a current chairman ceases to be independent during the time between annual meetings of shareholders; and, (b) that compliance with the policy is excused if no independent trustee is available and willing to serve as chairman.

Supporting Statement: It is the responsibility of the Board of Trustees to protect shareholders long-term interests by providing independent oversight of management, including the Chief Executive Officer (CEO), in directing the corporation s business and affairs. Currently at our Company, Mr. Steven Roth is both Chairman of the Board and the CEO. We believe that this current scheme may not adequately protect shareholders.

Shareholders of our Company require an independent leader to ensure that management acts strictly in the best interests of the Company. By setting agendas, priorities and procedures, the position of Chairman is critical in shaping the work of the Board of Trustees. Accordingly, we believe that having an independent trustee serve as chairman can help ensure the objective functioning of an effective Board.

As a long-term shareholder of our Company, we believe that ensuring that the Chairman of the Board of our Company is independent, will enhance Board leadership at Vornado, and protect shareholders from future management actions that can harm shareholders. Other corporate governance experts agree. As a Commission of The Conference Board stated in a 2003 report, The ultimate responsibility for good corporate governance rests with the board of trustees. Only a strong, diligent and independent board of trustees that understand the key issues, provides wise counsel and asks management the tough questions, is capable of ensuring that the interests of shareowners as well as other constituencies are being properly served.

We believe that the recent wave of corporate scandals demonstrates that no matter how many independent trustees there are on the Board, that Board is less able to provide independent oversight of the officers if the Chairman of that Board is also CEO of the Company.

We, therefore, urge shareholders to vote **FOR** this proposal.

Board of Trustees Statement Opposing Shareholder Proposal

Our Corporate Governance Guidelines, which are regularly reviewed by our Corporate Governance and Nominating Committee and our Board of Trustees, provide that the Board is free to select its Chairman and the Company s Chief Executive Officer in the manner it considers in the best interests of the Company at any given point in time, and that these positions can be filled by the same person or by two individuals. This policy was adopted after careful consideration by our Nominating and Corporate Governance Committee and our full Board to reflect the Board s belief that it is important to retain the flexibility to allocate the responsibilities of the offices of the Chairman and the Chief Executive Officer in any way that it deems appropriate in light of the then-current circumstances. Adopting a policy that would arbitrarily limit the Board s selection of a Chairman to only an independent trustee who is not a current or former executive officer of the Company could disable the Board from selecting as Chairman the person whom they believe to be best qualified to serve in that position. The members of the Board possess considerable experience and unique knowledge of the challenges and opportunities that the

Company faces. They are, therefore, in the best position to evaluate the current and future needs of the Company and to judge how to make use of the capabilities of the Company s senior managers and trustees and how to allocate responsibilities among them. All of our trustees are bound by the obligations imposed by Maryland Law. Establishing arbitrary criteria for the selection of a Chairman does not better enable the Board s ability to fulfill those obligations.

The Board believes the most effective leadership structure for the Company at the present time is to make use of Mr. Roth s unique and deep experience and insight with the Company and industry as both Chairman and Chief Executive Officer. The Board, as always, retains the flexibility to modify this structure as it deems fit at any time.

The Board of Trustees believes that having a strong, independent group of trustees is critically important to good corporate governance. The functions of the Board are carried out by the full Board and by Board committees. The Board has been, and continues to be, a strong proponent of Board independence and has already ensured that a majority of the Board, as well as all members of the Audit, Compensation and Corporate Governance and Nominating Committees are independent under New York Stock Exchange standards. As only two of our trustees are executive officers, there are ample independent trustees to offer critical review of management plans. In furtherance of this, our Corporate Governance Guidelines provide that any Board member may (and in fact, they do) suggest the inclusion of matters on the agenda for any Board meeting. In addition, non-employee trustees meet privately in executive session at every regularly scheduled Board meeting. Furthermore, the Board has established robust procedures for contacting the independent Chair of our Audit Committee regarding matters requiring attention of independent Board members.

Further, upon recommendation of the Corporate Governance and Nominating Committee, the Board determined to appoint a lead trustee. As is set forth in the Company s Corporate Governance Guidelines, the independent trustees will annually elect an independent trustee to serve as lead trustee. The lead trustee will serve as a resource to the Chairman and the Board, will coordinate the activities of the independent trustees, and will perform such other duties and responsibilities as the Board may determine. The lead trustee s specific duties include presiding at all meetings of the Board in the absence of the Chairman and at all executive sessions of the independent trustees, serving as liaison between the Chairman and the independent trustees, consulting with the Chairman on meeting schedules, agenda items and materials for meetings and calling meetings of the independent trustees when necessary and appropriate.

The Board of Trustees believes the Company s current policy, Bylaws and governance guidelines establish appropriate oversight procedures and the flexibility necessary for trustees to select the best-qualified person as Chairman in accordance with the exercise of their duties as trustees. The proposal presented imposes an arbitrary and unnecessary restriction on the performance of those duties that the Board believes is not in the best interests of the Company and its shareholders.

The Board of Trustees unanimously recommends a vote AGAINST the proposal relating to the separation of the offices of Chairman and chief executive officer.

The affirmative vote of a majority of all the votes cast at the Annual Meeting, assuming a quorum is present, is necessary for approval of this proposal. Abstentions and broker non-votes will not be counted as votes cast and will have no effect on the result of the vote, although they will count towards the presence of a quorum. Shareholder approval of this proposal would not result in a change to our Bylaws because this is only a recommendation to the Board of Trustees.

INCORPORATION BY REFERENCE

To the extent this Proxy Statement is incorporated by reference into any other filing by the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, the sections entitled Compensation Committee Report on Executive Compensation and Report of the Audit Committee (to the extent permitted by the rules of the SEC) will not be deemed incorporated unless provided otherwise in such filing.

ADDITIONAL MATTERS TO COME BEFORE THE MEETING

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

PROXY AUTHORIZATION VIA THE INTERNET OR BY TELEPHONE

We have established procedures by which shareholders may authorize their proxies via the Internet or by telephone. You may also authorize your proxy by mail. Please see the proxy card accompanying this Proxy Statement for specific instructions on how to authorize your proxy by any of these methods.

Proxies authorized via the Internet or by telephone must be received by 11:59 P.M., New York City time, on Wednesday, May 13, 2009. Authorizing your proxy via the Internet or by telephone will not affect the right to revoke your proxy should you decide to do so.

The Internet and telephone proxy authorization procedures are designed to authenticate shareholders identities and to allow shareholders to give their voting instructions and confirm that shareholders instructions have been recorded properly. The Company has been advised that the Internet and telephone proxy authorization procedures that have been made available are consistent with the requirements of applicable law. Shareholders authorizing their proxies via the Internet or by telephone should understand that there may be costs associated with voting in these manners, such as charges for Internet access providers and telephone companies which must be borne by the shareholder.

ADVANCE NOTICE FOR SHAREHOLDER NOMINATIONS AND SHAREHOLDER PROPOSALS

The Bylaws of the Company currently provide that in order for a shareholder to nominate a candidate for election as a trustee at an Annual Meeting of Shareholders or propose business for consideration at such meeting, notice must be given to the Secretary of the Company no more than 120 days nor less than 90 days prior to the first anniversary of the preceding year s Annual Meeting and must indicate certain information specified in the Bylaws. As a result, under the current Bylaws, any notice given by or on behalf of a shareholder pursuant to the provisions of our Bylaws must comply with the requirements of the Bylaws and be delivered to the Secretary of the Company at the principal executive office of the Company, 888 Seventh Avenue, New York, New York 10019 between and including January 14, 2010 and February 13, 2010. The Board of Trustees may amend the Bylaws from time-to-time.

Shareholders interested in presenting a proposal for inclusion in the Proxy Statement for the Company s Annual Meeting of Shareholders in 2010 may do so by following the procedures in Rule 14a-8 under the Securities Exchange Act of 1934. To be eligible for inclusion, shareholder proposals must be received at the principal executive office of the Company, 888 Seventh Avenue, New York, New York 10019, Attention: Secretary, not later than December 4, 2009.

By Order of the Board of Trustees,

Alan J. Rice
Secretary

New York, New York
April 3, 2009

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ANNEX A

CORPORATE GOVERNANCE GUIDELINES

I. Introduction

The Board of Trustees of Vornado Realty Trust (the Trust), acting on the recommendation of its Corporate Governance and Nominating Committee, has developed and adopted a set of corporate governance principles (the Guidelines) to promote the functioning of the Board and its committees and to set forth a common set of expectations as to how the Board should perform its functions. These Guidelines are in addition to the Trust s Amended and Restated Declaration of Trust and Amended and Restated Bylaws, in each case as amended.

II. Board Composition

The composition of the Board should balance the following goals:

n The size of the Board should facilitate substantive discussions of the whole Board in which each Trustee can participate meaningfully;

n The composition of the Board should encompass a broad range of skills, expertise, industry knowledge, diversity of opinion and contacts relevant to the Trust s business; and

n A majority of the Board shall consist of Trustees who the Board has determined are independent under the Corporate Governance Rules (the NYSE Rules) of The New York Stock Exchange, Inc. (the NYSE).

III. Selection of Chairman of the Board and Chief Executive Officer

The Board is free to select its Chairman and the Trust s Chief Executive Officer in the manner it considers in the best interests of the Trust at any given point in time. These positions may be filled by one individual or by two different individuals.

IV. Selection of Trustees

Nominations. The Board is responsible for selecting the nominees for election to the Trust s Board of Trustees. The Trust s Corporate Governance and Nominating Committee is responsible for recommending to the Board a slate of Trustees or one or more nominees to fill vacancies occurring between annual meetings of shareholders. The members of the Corporate Governance and Nominating Committee may, in their discretion, work or otherwise consult with members of management of the Trust in preparing the Committee s recommendations.

Criteria. The Board should, based on the recommendation of the Corporate Governance and Nominating Committee, select new nominees for the position of independent Trustee considering the following criteria:

n Personal qualities and characteristics, accomplishments and reputation in the business community;

n Current knowledge and contacts in the communities in which the Trust does business and in the Trust s industry or other industries relevant to the Trust s business;

- Ability and willingness to commit adequate time to Board and committee matters;

- The fit of the individual s skills and personality with those of other Trustees and potential Trustees in building a Board that is effective, collegial and responsive to the needs of the Trust; and

- Diversity of viewpoints, experience and other demographics.

Independence Standards. To qualify as independent under the NYSE Rules, the Board must affirmatively determine that a Trustee has no material relationship with the Trust and/or its consolidated subsidiaries. The

Board has adopted the following categorical standards to assist it in making determinations of independence. For purposes of these standards, references to the Trust will mean Vornado Realty Trust and its consolidated subsidiaries.

The following relationships have been determined not to be material relationships that would categorically impair a Trustee s ability to qualify as independent:

1. Payments to and from other organizations. A Trustee s or his immediate family member s status as executive officer or employee of an organization that has made payments to the Trust, or that has received payments from the Trust, not in excess of the greater of:

   (i) $1 million; or

   (ii) 2% of the other organization s consolidated gross revenues for the fiscal year in which the payments were made.

   In the case where an organization has received payments that ultimately represent amounts due to the Trust and such amounts are not due in respect of property or services from the Trust, these payments will not be considered amounts paid to the Trust for purposes of determining (i) and (ii) above so long as the organization does not retain any remuneration based upon such payments.

2. Beneficial ownership of the Trust s equity securities. Beneficial ownership by a Trustee or his immediate family member of not more than 10% of the Trust s equity securities. A Trustee or his immediate family member s position as an equity owner, director, executive officer or similar position with an organization that beneficially owns not more than 10% of the Trust s equity securities.

3. Common ownership with the Trust. Beneficial ownership by, directly or indirectly, a Trustee, either individually or with other Trustees, of equity interests in an organization in which the Trust also has an equity interest.

4. Directorships with, or beneficial ownership of, other organizations. A Trustee s or his immediate family member s interest in a relationship or transaction where the interest arises from either or both of:

   (i) his or his family member s position as a director with an organization doing business with the Trust; or

   (ii) his or his family member s beneficial ownership in an organization doing business with the Trust so long as the level of beneficial ownership in the organization is 25% or less, or less than the Trust s beneficial ownership in such organization, whichever is greater.

5. Affiliations with charitable organizations. The affiliation of a Trustee or his immediate family member with a charitable organization that receives contributions from the Trust, or an affiliate of the Trust, so long as such contributions do not exceed for a particular fiscal year the greater of:

   (i) $1 million; or

   (ii) 2% of the organization s consolidated gross revenues for that fiscal year.

6.

Relationships with organizations to which the Trust owes money. A Trustee s or his immediate family member s status as an executive officer or employee of an organization to which the Trust was indebted at the end of the Trust s most recent fiscal year so long as that total amount of indebtedness is not in excess of 5% of the Trust s total consolidated assets.

7. Relationships with organizations that owe money to the Trust. A Trustee s or his immediate family member s status as an executive officer or employee of an organization which is indebted to the Trust at

the end of the Trust s most recent fiscal year so long as that total amount of indebtedness is not in excess of 15% of the organization s total consolidated assets.

8. Personal indebtedness to the Trust. A Trustee s or his immediate family member s being indebted to the Trust at any time since the beginning of the Trust s most recently completed fiscal year so long as such amount does not exceed the greater of:

   (i) $1 million; or

   (ii) 2% of the individual s net worth.

9. Leasing or retaining space from the Trust. The leasing or retaining of space from the Trust by:

   (i) a Trustee;

   (ii) a Trustee s immediate family member; or

   (iii) an affiliate of a Trustee or an affiliate of a Trustee s immediate family member;

   so long as in each case the rental rate and other lease terms are at market rates and terms in the aggregate at the time the lease is entered into or, in the case of a non-contractual renewal, at the time of the renewal.

10. Other relationships that do not involve more than $100,000. Any other relationship or transaction that is not covered by any of the categorical standards listed above and that do not involve payments of more than $100,000 in the most recently completed fiscal year of the Trust.

11. Personal relationships with management. A personal relationship between a Trustee or a Trustee s immediate family member with a member of the Trust s management.

12. Partnership and co-investment relationships between or among Trustees. A partnership or co-investment relationship between or among a Trustee or a Trustee s immediate family member and other members of the Trust s Board of Trustees, including management Trustees, so long as the existence of the relationship has been previously disclosed in the Trust s reports and/or proxy statements filed with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended.

The fact that a particular transaction or relationship falls within one or more of the above categorical standards does not eliminate a Trustee s obligation to disclose the transaction or relationship to the Trust, the Board of Trustees or management as and when requested for public disclosure and other relevant purposes. For relationships that are either not covered by or do not satisfy the categorical standards above, the determination of whether the relationship is material and therefore whether the Trustee qualified as independent or not, may be made by the Corporate Governance and Nominating Committee or the Board. The Trust shall explain in the annual meeting proxy statement immediately following any such determination the basis for any determination that a relationship was immaterial despite the fact that it did not meet the foregoing categorical standards.

Invitation. The invitation to join the Board should be extended by the Board itself via the Chairman of the Board and CEO of the Trust, together with an independent Trustee, when deemed appropriate.

Orientation and Continuing Education. Management, working with the Board, will provide an orientation process for new Trustees, including background material on the Trust, its business plan and its risk profile, and meetings with senior management. Members of the Board are required to undergo continuing education as recommended by the NYSE. In connection therewith, the Trust will reimburse Trustees for all reasonable costs associated with the attendance at or the completion of any continuing education program supported, offered or approved by the NYSE or approved by the Trust.

V. Election Term

The Board does not believe it should establish term limits.

VI. Retirement of Trustees

The Board believes it should not establish a mandatory retirement age.

VII. Board Meetings

The Board currently plans at least four meetings each year, with further meetings to occur (or action to be taken by unanimous written consent) at the discretion of the Board. The meetings will usually consist of committee meetings and the Board meeting.

The agenda for each Board meeting will be established by the Chairman and CEO, with assistance of the Trust s Secretary and internal Corporation Counsel. Any Board member may suggest the inclusion of additional subjects on the agenda. Management will seek to provide to all Trustees an agenda and appropriate materials in advance of meetings, although the Board recognizes that this will not always be consistent with the timing of transactions and the operations of the business and that in certain cases it may not be possible.

Materials presented to the Board or its committees should be as concise as possible, while still providing the desired information needed for the Trustees to make an informed judgment.

VIII. Executive Sessions

To ensure free and open discussion and communication among the non-management Trustees, the non-management Trustees will meet in executive sessions periodically, with no members of management present. Non-management Trustees who are not independent under the NYSE Rules may participate in these executive sessions, but independent Trustees should meet separately in executive session at least once per year.

At any time that the independent Trustees have not appointed a Lead Trustee or the Lead Trustee is not present, the participants in any executive sessions will select by majority vote of those attending a presiding Trustee for such sessions or any such session.

In order that interested parties may be able to make their concerns known to the non-management Trustees, the Trust shall disclose a method for such parties to communicate directly with the presiding trustee or the non-management trustees as a group. For the purposes hereof, communication through a third-party such as an external lawyer or a third-party vendor who relays information to non-management members of the Board will be considered direct.

IX. The Committees of the Board

The Trust shall have at least the committees required by the NYSE Rules. Currently, these are the Audit Committee, the Compensation Committee and a nominating/corporate governance committee, which in our Trust is called the Corporate Governance and Nominating Committee. Each of these three committees must have a written charter satisfying the rules of the NYSE.

All trustees, whether members of a committee or not, are invited to make suggestions to a committee chair for additions to the agenda of his or her committee or to request that an item from a committee agenda be considered by the Board. Each committee chair will give a periodic report of his or her committee s activities to the Board.

Each of the Corporate Governance and Nominating Committee, the Audit Committee and the Compensation Committee shall be composed of at least such number of trustees as may be required by the NYSE Rules who the Board has determined are independent under the NYSE Rules. Any additional qualifications for the members of each committee shall be set out in the respective committees charters. A trustee may serve on more than one committee for which he or she qualifies.

Each committee may take any action in a meeting of the full Board, and actions of the Board, including the approval of such actions by a majority of the members of the Committee, will be deemed to be actions of that committee. In such circumstance only the votes cast by members of the committee shall be counted in determining the outcome of the vote on matters upon which the committee acts.

X. Management Succession

At least annually, the Board shall review and concur in a succession plan, developed by management, addressing the policies and principles for selecting a successor to the CEO, both in an emergency situation and in the ordinary course of business. The succession plan should include an assessment of the experience, performance, skills and planned career paths for possible successors to the CEO.

XI. Lead Trustee

The independent Trustees will annually elect an independent Trustee to serve as Lead Trustee. The Lead Trustee will serve as a resource to the Chairman and to the other independent Trustees, coordinating the activities of the independent Trustees. The Lead Trustee will perform such other duties and responsibilities as the Board may determine.

The Board has determined that the Lead Trustee should have the following specific duties and responsibilities:

(i) Preside at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent Trustees;

(ii) Serve as liaison between the Chairman and the independent Trustees;

(iii) Consult with the Chairman as to an appropriate schedule of board meetings;

(iv) Consult with the Chairman as to agenda items and materials sent in advance of board meetings, provided that all Trustees may suggest items for inclusion on the agenda; and

(v) Call meetings of the independent Trustees when necessary and appropriate.

XII. Executive Compensation

Evaluating and Approving Salary for the CEO. The Board, acting through the Compensation Committee, evaluates the performance of the CEO and the Trust against the Trust s goals and objectives and approves the compensation level of the CEO.

Evaluating and Approving the Compensation of Management. The Board, acting through the Compensation Committee, evaluates and approves the proposals for overall compensation policies applicable to executive officers.

XIII. Board Compensation

The Board should conduct a review at least once every three years of the components and amount of Board compensation in relation to other similarly situated companies. Board compensation should be consistent with market practices but should not be set at a level that would call into question the Board s objectivity.

XIV. Prohibition on Short Sales

In accordance with Federal securities laws, the Company should prohibit short sales by our executive officers of our equity securities.

XV. Expectations of Trustees

The business and affairs of the Trust shall be managed under the direction of the Board in accordance with Maryland law. In performing his or her duties, the primary responsibility of the trustees is to exercise his or her business judgment in the best interests of the Trust. The Board has developed a number of specific expectations of trustees to promote the discharge of this responsibility and the efficient conduct of the Board s business.

Commitment and Attendance. All independent and management trustees should make every effort to attend meetings of the Board and meetings of committees of which they are members. Members may attend by telephone or similar communications equipment if all persons participating in the meeting can hear each other at the same time. The Board may act by unanimous written consent in lieu of a meeting.

Participation in Meetings. Each trustee should be sufficiently familiar with the business of the Trust, including its financial statements and capital structure, and the risks and competition it faces, to facilitate active and effective participation in the deliberations of the Board and of each committee on which he or she serves. Upon request, management will make appropriate personnel available to answer any questions a trustee may have about any aspect of the Trust s business. Trustees should also review the materials provided by management and advisors in advance of the meetings of the Board and its committees and should arrive prepared to discuss the issues presented.

Loyalty and Ethics. In their roles as Trustees, all Trustees owe a duty of loyalty to the Trust. This duty of loyalty mandates that the best interests of the Trust take precedence over any interests possessed by a Trustee.

The Trust has adopted a Code of Business Conduct and Ethics, including a compliance program to enforce the Code. Certain portions of the Code deal with activities of Trustees, particularly with respect to transactions in the securities of the Trust, potential conflicts of interest, the taking of corporate opportunities for personal use, and competing with the Trust. Trustees should be familiar with the Code s provisions in these areas and should consult with any member of the Trust s Corporate Governance and Nominating Committee or the Trust s internal Corporation Counsel in the event of any concerns. The Corporate Governance and Nominating Committee is ultimately responsible for applying the Code to specific situations and has the authority to interpret the Code in any particular situation.

Other Directorships. The Trust values the experience Trustees bring from other boards on which they serve, but recognizes that those boards may also present demands on a Trustee s time and availability and may present conflicts or legal issues. Trustees should advise the Chairman of the Corporate Governance and Nominating Committee and the CEO before accepting membership on other boards of directors or other significant commitments involving affiliation with other businesses or governmental units.

Contact with Management. All Trustees are invited to contact the CEO at any time to discuss any aspect of the Trust s business. Trustees will also have complete access to other members of management. The Board expects that there will be frequent opportunities for Trustees to meet with the CEO and other members of management in Board and committee meetings and in other formal or informal settings.

Further, the Board encourages management to, from time to time, bring managers into Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement and substantial knowledge in those areas, and/or (b) are managers with future potential that the senior management believes should be given exposure to the Board.

Contact with Other Constituencies. It is important that the Trust speaks to employees and outside constituencies with a single voice, and that management serve as the primary spokesperson.

Confidentiality. The proceedings and deliberations of the Board and its committees are confidential. Each Trustee shall maintain the confidentiality of information received in connection with his or her service as a Trustee.

XVI. Evaluating Board Performance

The Board, acting through the Corporate Governance and Nominating Committee, should conduct a self-evaluation at least annually to determine whether it is functioning effectively. The Corporate Governance and Nominating Committee should periodically consider the mix of skills and experience that Trustees bring to the Board to assess whether the Board has the necessary tools to perform its oversight function effectively.

Each committee of the Board should conduct a self-evaluation at least annually and report the results to the Board, acting through the Corporate Governance and Nominating Committee. Each committee s evaluation must compare the performance of the committee with the requirements of its written charter, if any.

XVII. Reliance on Management and Outside Advice

In performing its functions, the Board is entitled to rely on the advice, reports and opinions of management, counsel, accountants, auditors and other expert advisors. The Board shall have the authority to retain and approve the fees and retention terms of its outside advisors.

888 Seventh Avenue, New York, New York 10019

VORNADO REALTY TRUST 888 SEVENTH AVENUE NEW YORK, NY 10019 VOTE BY INTERNET - www.proxyvote.com Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form. ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS If you would like to reduce the costs incurred by our company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years. VOTE BY PHONE 1-800-690-6903 Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions. VOTE BY MAIL Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Vote Processing, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: VORNA1 KEEP THIS PORTION FOR YOUR RECORDS DETACH AND RETURN THIS PORTION ONLY THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED. VORNADO REALTY TRUST For All Withhold All For All Except To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below. THE BOARD OF TRUSTEES RECOMMENDS A VOTE "FOR" THE ELECTION OF EACH NOMINEE FOR TRUSTEE, "FOR" PROPOSAL 2 AND "AGAINST" PROPOSALS 3 AND 4. o o o 1. ELECTION OF TRUSTEES each for a term ending at the Annual Meeting of Shareholders in 2012 and until his successor is duly elected and qualified: Nominees: 01) Steven Roth 02) Michael D. Fascitelli 03) Russell B. Wight, Jr. Vote On Proposal For Against Abstain 2. RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM. o o o 3. SHAREHOLDER PROPOSAL REGARDING MAJORITY VOTING FOR TRUSTEES. o o o 4. SHAREHOLDER PROPOSAL REGARDING THE APPOINTMENT OF AN INDEPENDENT CHAIRMAN. o o o 5. TO VOTE AND OTHERWISE REPRESENT THE UNDERSIGNED ON ANY OTHER MATTER THAT MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF IN THE DISCRETION OF THE PROXY HOLDER. For address changes and/or comments, please check this box and writeo them on the back where indicated. Note: Please sign exactly as your name or names appear(s) on this Proxy. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee, guardian or other fiduciary, please give full title as such. If a corporation, limited liability company, partnership or other entity, please sign in full name of the corporation, limited liability company, partnership or other entity, by an authorized person. THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS GIVEN, THIS PROXY WILL BE VOTED "FOR" THE PRECEDING NOMINEES IN PROPOSAL 1, "FOR" PROPOSAL 2 AND "AGAINST" PROPOSALS 3 AND 4. IF ANY NOMINEE DECLINES OR IS UNABLE TO SERVE AS A TRUSTEE, THEN THE PERSONS NAMED AS PROXIES SHALL HAVE FULL DISCRETION TO VOTE FOR ANY OTHER PERSON DESIGNATED BY THE BOARD OF TRUSTEES. Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting: The 2008 Annual Report to Shareholders, including the 2008 Annual Report on Form 10-K and Proxy Statement are available at www.proxyvote.com. VORNA2 VORNADO REALTY TRUST This proxy is solicited on behalf of the Board of Trustees for the Annual Meeting of Shareholders May 14, 2009 11:30 A.M. The undersigned shareholder, revoking all prior proxies, hereby appoints Steven Roth and Michael D. Fascitelli, or either of them, as proxies for the undersigned, each with full power of substitution, to attend the Annual Meeting of Shareholders of Vornado Realty Trust, a Maryland real estate investment trust (the Company), to be held at the Saddle Brook Marriott, Interstate 80 and the Garden State Parkway, Saddle Brook, New Jersey 07663 on Thursday, May 14, 2009 at 11:30 A.M., local time, and any postponements or adjournments thereof, to cast on behalf of the undersigned all votes that the undersigned is entitled to cast at such meeting and otherwise represent the undersigned at the meeting with all powers possessed by the undersigned if personally present at the meeting. Each proxy is authorized to vote as directed on the reverse side hereof upon the proposals which are more fully set forth in the Proxy Statement and otherwise in his discretion upon such other business as may properly come before the meeting and all postponements or adjournments thereof, all as more fully set forth in the Notice of Annual Meeting of Shareholders and Proxy Statement, receipt of which is hereby acknowledged. THIS PROXY IS SOLICITED BY THE BOARD OF TRUSTEES OF THE COMPANY. WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED IN THE MANNER DIRECTED BY THE UNDERSIGNED SHAREHOLDER. IF THIS PROXY IS EXECUTED BUT NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED (1) FOR THE ELECTION OF EACH NOMINEE FOR TRUSTEE, (2) FOR THE RATIFICATION OF THE SELECTION OF THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM, (3) AGAINST THE SHAREHOLDER PROPOSAL REGARDING MAJORITY VOTING FOR TRUSTEES, AND (4) AGAINST THE SHAREHOLDER PROPOSAL REGARDING THE APPOINTMENT OF AN INDEPENDENT CHAIRMAN. THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST IN THE DISCRETION OF THE PROXY HOLDER ON ANY OTHER MATTER THAT MAY PROPERLY COME BEFORE THE MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF. Address Changes/Comments: (If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.) (Continued and to be executed on reverse side.)