NAREIT Financial Standards Alert

National Association of Real Estate Investment Trusts®
REITs: Building Dividends and Diversification®

Financial Standards Alert

Accounting for Certain Stock Dividends

In December 2008, the IRS issued a revenue procedure that allows listed REITs to offer a mixture of stock and cash (with at least 10 percent of the total distribution being cash) to satisfy their dividend distribution requirement through 2009. Thus far, five equity REITs have declared dividends that provide each shareholder with an option to take cash and/or shares. In most cases, the aggregate amount of cash that is available for distribution is limited by the company.

To illustrate these dividend arrangements, Vornado Realty Trust declared a regular quarterly dividend of $.95 per share on January 14, 2009. The dividend will be paid in a combination of cash, not to exceed 40% in the aggregate, and common shares. Shareholders will be asked to make an election to receive this dividend all in cash or all in Vornado shares. To the extent that more than 40% cash in the aggregate is elected, the cash portion will be prorated. Shareholders who do not make an election will receive 40% in cash and 60% in common shares.

A financial reporting question has arisen with respect to the impact of these elective stock/cash dividend arrangements on reported per share amounts. Two possible accounting treatments have been put forth. One treatment would restate any per share amounts of prior periods presented to reflect the shares issued under the dividend arrangement. This treatment is similar to accounting for stock splits or all-stock dividends. An alternative treatment would account for the stock portion of the dividend as if it was a stock issuance rather than a stock dividend. Under this accounting, the new shares issued would only affect per share amounts reported prospectively.

This issue has been discussed with the SEC staff, which has concluded that: 1) the FASB/EITF should examine this issue; and 2) until the FASB/EITF concludes its deliberations, the SEC Division of Corporation Finance should not issue comments regarding this matter as long as the company appears to be following a reasonable and

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consistent approach. Therefore, a company may choose either accounting treatment described above. Companies are urged to consult with their advisors/auditors on this accounting matter.

To date, at least four equity REITs have chosen to restate prior period per share amounts. FASB's/EITF's conclusions will be reported as soon as they are available.

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