

ALEXANDERS INC  
Form 10-Q  
August 01, 2016

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, DC 20549**

**FORM 10-Q**

(Mark one)

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

For the quarterly period **June 30, 2016**  
ended:

**Or**

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

**For the transition period from:** \_\_\_\_\_ **to** \_\_\_\_\_

**Commission File Number:** **001-06064**

**ALEXANDER'S, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation or  
organization)

**51-0100517**  
(I.R.S. Employer Identification Number)

**210 Route 4 East, Paramus, New Jersey**  
(Address of principal executive offices)

**07652**  
(Zip Code)

**(201) 587-8541**

(Registrant's telephone number, including area code)

**N/A**

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

Large Accelerated Filer  Accelerated Filer  
 Non-Accelerated Filer (Do not check if smaller reporting company)  Smaller Reporting Company

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

As of July 31, 2016, there were 5,106,196 shares of common stock, par value \$1 per share, outstanding.



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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements**

**ALEXANDER'S, INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

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

<b>ASSETS</b>	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Real estate, at cost:		
Land	\$ 44,971	\$ 44,971
Buildings and leasehold improvements	982,230	975,015
Development and construction in progress	3,169	9,486
Total	1,030,370	1,029,472
Accumulated depreciation and amortization	(239,047)	(225,533)
Real estate, net	791,323	803,939
Cash and cash equivalents	235,753	259,349
Restricted cash	87,888	85,307
Marketable securities	45,706	43,191
Tenant and other receivables, net of allowance for doubtful accounts of \$1,044 and \$918, respectively	2,519	4,014
Receivable arising from the straight-lining of rents	180,447	181,357
Deferred leasing costs, net, including unamortized leasing fees to Vornado of \$38,658 and \$33,482, respectively	50,538	45,840
Other assets	51,661	24,811
	\$ 1,445,835	\$ 1,447,808

**LIABILITIES AND EQUITY**

Mortgages payable, net of deferred debt issuance costs	\$ 1,052,840	\$ 1,053,262
Amounts due to Vornado	1,223	8,551
Accounts payable and accrued expenses	30,061	30,158

Other liabilities	2,942	2,957
Total liabilities	1,087,066	1,094,928

## Commitments and contingencies

Preferred stock: \$1.00 par value per share; authorized, 3,000,000 shares; issued and outstanding, none	-	-
Common stock: \$1.00 par value per share; authorized, 10,000,000 shares; issued, 5,173,450 shares; outstanding, 5,106,196 shares	5,173	5,173
Additional capital	31,189	30,739
Retained earnings	307,221	304,340
Accumulated other comprehensive income	15,560	13,002
	359,143	353,254
Treasury stock: 67,254 shares, at cost	(374)	(374)
Total equity	358,769	352,880
	\$ 1,445,835	\$ 1,447,808

See notes to consolidated financial statements (unaudited).

**ALEXANDER'S, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>REVENUES</b>				
Property rentals	\$ 38,878	\$ 34,554	\$ 75,531	\$ 69,055
Expense reimbursements	18,127	16,092	37,032	33,627
Total revenues	57,005	50,646	112,563	102,682
<b>EXPENSES</b>				
Operating, including fees to Vornado of \$1,048, \$1,071, \$2,309 and \$2,217, respectively	19,334	17,549	38,988	36,595
Depreciation and amortization	9,367	7,341	17,700	14,691
General and administrative, including management fees to Vornado of \$595 and \$1,190 in each three and six month period, respectively	1,825	1,900	3,060	3,170
Total expenses	30,526	26,790	59,748	54,456
<b>OPERATING INCOME</b>	<b>26,479</b>	<b>23,856</b>	<b>52,815</b>	<b>48,226</b>
Interest and other income, net	775	410	1,866	810
Interest and debt expense	(5,455)	(6,924)	(10,861)	(13,869)
Income before income taxes	21,799	17,342	43,820	35,167
Income tax expense	(32)	(1)	(34)	(4)
Net income	\$ 21,767	\$ 17,341	\$ 43,786	\$ 35,163
Net income per common share – basic and diluted	\$ 4.26	\$ 3.39	\$ 8.56	\$ 6.88
Weighted average shares outstanding – basic and diluted	5,113,844	5,112,026	5,113,461	5,111,616
Dividends per common share	\$ 4.00	\$ 3.50	\$ 8.00	\$ 7.00

See notes to consolidated financial statements (unaudited).



**ALEXANDER'S, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**  
(Amounts in thousands)

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 21,767	\$ 17,341	\$ 43,786	\$ 35,163
Other comprehensive income:				
Change in unrealized net gain on available-for-sale securities	3,292	(5,208)	2,515	(4,715)
Change in value of interest rate cap	27	(4)	43	(10)
Comprehensive income	\$ 25,086	\$ 12,129	\$ 46,344	\$ 30,438

See notes to consolidated financial statements (unaudited).

**ALEXANDER'S, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**(UNAUDITED)**  
(Amounts in thousands)

	Common Stock		Additional	Retained	Accumulated Other Comprehensive	Treasury	Total
	Shares	Amount	Capital	Earnings	Income	Stock	Equity
<b>Balance, December 31, 2014</b>	5,173	\$ 5,173	\$ 30,139	\$ 299,004	\$ 14,457	\$ (374)	\$ 348,399
Net income	-	-	-	35,163	-	-	35,163
Dividends paid	-	-	-	(35,780)	-	-	(35,780)
Change in unrealized net gain on available-for-sale securities	-	-	-	-	(4,715)	-	(4,715)
Change in value of interest rate cap	-	-	-	-	(10)	-	(10)
Deferred stock unit grants	-	-	600	-	-	-	600
<b>Balance, June 30, 2015</b>	5,173	\$ 5,173	\$ 30,739	\$ 298,387	\$ 9,732	\$ (374)	\$ 343,657
<b>Balance, December 31, 2015</b>	5,173	\$ 5,173	\$ 30,739	\$ 304,340	\$ 13,002	\$ (374)	\$ 352,880
Net income	-	-	-	43,786	-	-	43,786
Dividends paid	-	-	-	(40,905)	-	-	(40,905)
Change in unrealized net gain on available-for-sale securities	-	-	-	-	2,515	-	2,515
Change in value of interest rate cap	-	-	-	-	43	-	43
Deferred stock unit grants	-	-	450	-	-	-	450
<b>Balance, June 30, 2016</b>	5,173	\$ 5,173	\$ 31,189	\$ 307,221	\$ 15,560	\$ (374)	\$ 358,769

See notes to consolidated financial statements (unaudited).

**ALEXANDER'S, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH**  
**FLows**

**(UNAUDITED)**

(Amounts in thousands)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
<b>CASH FLOWS FROM</b>	<b>2016</b>	<b>2015</b>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 43,786	\$ 35,163
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including amortization of debt issuance costs	18,981	16,061
Straight-lining of rental income	910	(943)
Stock-based compensation expense	450	600
Changes in operating assets and liabilities:		
Tenant and other receivables, net	1,495	(997)
Other assets	(34,112)	(23,769)
Amounts due to Vornado	(1,607)	(84)
Accounts payable and accrued expenses	2,851	(1,002)
Other liabilities	(15)	(15)
Net cash provided by operating activities	32,739	25,014
 <b>CASH FLOWS FROM</b>		
<b>INVESTING ACTIVITIES</b>		
Construction in progress and real estate additions	(11,146)	(29,356)
Change in restricted cash	(2,581)	116
Proceeds from maturing short-term investments	-	24,998
Net cash used in investing activities	(13,727)	(4,242)
 <b>CASH FLOWS FROM</b>		
<b>FINANCING ACTIVITIES</b>		
Debt repayments	(1,687)	(1,567)
Dividends paid	(40,905)	(35,780)
Debt issuance costs	(16)	(10)
Net cash used in financing activities	(42,608)	(37,357)

Net decrease in cash and cash equivalents	(23,596)	(16,585)
Cash and cash equivalents at beginning of period	259,349	227,815
Cash and cash equivalents at end of period	\$ 235,753	\$ 211,230

**SUPPLEMENTAL  
DISCLOSURE OF CASH  
FLOW INFORMATION**

Cash payments for interest, excluding capitalized interest of \$1,017 in 2015	\$ 9,496	\$ 12,518
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**NON-CASH  
TRANSACTIONS**

Liability for real estate additions, including \$74 and \$5,042 for development fees due to Vornado in 2016 and 2015, respectively	\$ 1,401	\$ 15,662
Write-off of fully amortized and/or depreciated assets	1,591	83

See notes to consolidated financial statements  
(unaudited).

**ALEXANDER’S, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(UNAUDITED)**

**1. Organization**

Alexander’s, Inc. (NYSE: ALX) is a real estate investment trust (“REIT”), incorporated in Delaware, engaged in leasing, managing, developing and redeveloping its properties. All references to “we,” “us,” “our,” “Company” and “Alexander’s” refer to Alexander’s, Inc. and its consolidated subsidiaries. We are managed by, and our properties are leased and developed by, Vornado Realty Trust (“Vornado”) (NYSE: VNO).

**2. Basis of Presentation**

The accompanying consolidated financial statements are unaudited and include the accounts of Alexander’s and its consolidated subsidiaries. All intercompany amounts have been eliminated. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and changes in cash flows have been made. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted. These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (the “SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC.

We have made estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the operating results for the full year.

We currently operate in one business segment.

**3. The Alexander Apartment Tower**

The Alexander apartment tower, located above our Rego Park II shopping center, contains 312 units aggregating 255,000 square feet. The building is in lease up and we expect to reach stabilized occupancy in 2017.

#### 4. Recently Issued Accounting Literature

In May 2014, the Financial Accounting Standards Board (“FASB”) issued an update (“ASU 2014-09”) establishing Accounting Standards Codification (“ASC”) Topic 606 *Revenue from Contracts with Customers* (“ASC 606”). ASU 2014-09 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most of the existing revenue recognition guidance. ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires certain additional disclosures. ASU 2014-09 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017. In August 2015, the FASB issued an update (“ASU 2015-14”) to ASC 606, *Deferral of the Effective Date*, which defers the adoption of ASU 2014-09 to interim and annual reporting periods in fiscal years that begin after December 15, 2017. In March 2016, the FASB issued an update (“ASU 2016-08”) to ASC 606, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard pursuant to ASU 2014-09. In April 2016, the FASB issued an update (“ASU 2016-10”) to ASC 606, *Identifying Performance Obligations and Licensing*, which clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in ASU 2014-09. In May 2016, the FASB issued an update (“ASU 2016-12”) to ASC 606, *Narrow-Scope Improvements and Practical Expedients*, which amends certain aspects of the new revenue recognition standard pursuant to ASU 2014-09. We are currently evaluating the impact of the adoption of these ASUs on our consolidated financial statements.

In January 2016, the FASB issued an update (“ASU 2016-01”) *Recognition and Measurement of Financial Assets and Financial Liabilities* to ASC Topic 825, *Financial Instruments*. ASU 2016-01 amends certain aspects of recognition, measurement, presentation and disclosure of financial instruments, including the requirement to measure certain equity investments at fair value with changes in fair value recognized in net income. ASU 2016-01 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2016-01 on our consolidated financial statements.

**ALEXANDER’S, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

**4. Recently Issued Accounting Literature – continued**

In February 2016, the FASB issued (“ASU 2016-02”) *Leases*, which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase. Lessees are required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases. Lessees will recognize expense based on the effective interest method for finance leases or on a straight-line basis for operating leases. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

In March 2016, the FASB issued an update (“ASU 2016-09”) *Improvements to Employee Share-Based Payment Accounting* to ASC Topic 718, *Compensation—Stock Compensation* (“ASC 718”). ASU 2016-09 amends several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. We are currently evaluating the impact of the adoption of ASU 2016-09 on our consolidated financial statements.

**5. Related Party Transactions**

*Vornado*

As of June 30, 2016, Vornado owned 32.4% of our outstanding common stock. We are managed by, and our properties are leased and developed by, Vornado, pursuant to the agreements described below, which expire in March of each year and are automatically renewable.

*Management and Development Agreements*

We pay Vornado an annual management fee equal to the sum of (i) \$2,800,000, (ii) 2% of gross revenue from the Rego Park II shopping center, (iii) \$0.50 per square foot of the tenant-occupied office and retail space at 731 Lexington Avenue and (iv) \$297,000, escalating at 3% per annum, for managing the common area of 731 Lexington Avenue. Vornado is also entitled to a development fee equal to 6% of development costs, as defined. Accordingly, in March 2016 we paid Vornado a development fee of \$5,784,000 related to The Alexander apartment tower.

Leasing Agreements

Vornado also provides us 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 tenants. In the event third-party real estate brokers are used, the fees to Vornado increase by 1% and Vornado is responsible for the fees to the third-party real estate brokers. Vornado is also entitled to a commission upon the sale of any of our assets equal to 3% of gross proceeds, as defined, for asset sales less than \$50,000,000 and 1% of gross proceeds, as defined, for asset sales of \$50,000,000 or more.

Other Agreements

We also have agreements with Building Maintenance Services, a wholly owned subsidiary of Vornado, to supervise (i) cleaning, engineering and security services at our 731 Lexington Avenue property and (ii) security services at our Rego Park I and Rego Park II properties.

The following is a summary of fees to Vornado under the various agreements discussed above.



**ALEXANDER'S, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****5. Related Party Transactions - continued**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
(Amounts in thousands)				
Company				
management fees	\$ 700	\$ 700	\$ 1,400	\$ 1,400
Development fees	75	895	119	1,659
Leasing fees	833	16	7,291	398
Property management fees and payments for cleaning, engineering and security services	915	853	2,030	1,783
	\$ 2,523	\$ 2,464	\$ 10,840	\$ 5,240

As of June 30, 2016, the amounts due to Vornado were \$74,000 for development fees; \$318,000 for management, property management, cleaning and security fees; and \$831,000 for leasing fees. As of December 31, 2015, the amounts due to Vornado were \$5,795,000 for development fees; \$283,000 for management, property management and cleaning fees; and \$2,473,000 for leasing fees.

*Toys "R" Us ("Toys")*

As of June 30, 2016, our affiliate, Vornado owned 32.5% of Toys. Toys leases approximately 47,000 square feet of retail space at our Rego Park II shopping center. Joseph Macnow, our Executive Vice President and Chief Financial Officer, and Vornado's Executive Vice President - Finance and Chief Administrative Officer and Wendy A. Silverstein, a member of our Board of Directors, represent Vornado as members of Toys' Board of Directors. During the six months ended June 30, 2016, we recognized \$1,309,000 of revenue related to the space leased by Toys.

**6. Marketable Securities**

As of June 30, 2016 and December 31, 2015, we owned 535,265 common shares of The Macerich Company ("Macerich") (NYSE: MAC), which were received in connection with the sale of the Kings Plaza Regional Shopping Center ("Kings Plaza") to Macerich in November 2012. These shares have an economic cost of \$56.05 per share, or \$30,000,000 in the aggregate. As of June 30, 2016 and December 31, 2015, the fair value of these shares was

\$45,706,000 and \$43,191,000, respectively, based on Macerich's closing share price of \$85.39 per share and \$80.69 per share, respectively. These shares are included in "marketable securities" on our consolidated balance sheets and are classified as available-for-sale. Available-for-sale securities are presented at fair value and unrealized gains and losses resulting from the mark-to-market of these securities are included in "other comprehensive income."

**7. Significant Tenants**

Bloomberg L.P. (“Bloomberg”) accounted for revenue of \$52,217,000 and \$46,586,000, representing approximately 46% and 45% of our total revenues for the six months ended June 30, 2016 and 2015, respectively. No other tenant accounted for more than 10% of our total revenues. If we were to lose Bloomberg as a tenant, or if Bloomberg were to be unable to fulfill its obligations under its lease, it would adversely affect our results of operations and financial condition. In order to assist us in our continuing assessment of Bloomberg’s creditworthiness, we receive certain confidential financial information and metrics from Bloomberg. In addition, we access and evaluate financial information regarding Bloomberg from other private sources, as well as publicly available data.

In October 2014, Bloomberg exercised its option to extend leases that were scheduled to expire in December 2015 for a term of five years covering 192,000 square feet of office space at our 731 Lexington Avenue property. In January 2016, we entered into a lease amendment with Bloomberg which extends the lease term related to this space to be coterminous with the other 697,000 square feet of office space leased by Bloomberg through February 2029, with a ten-year extension option. In connection with the lease amendment, Bloomberg provided a \$200,000,000 letter of credit, which amount may be reduced in certain circumstances. We may draw on this letter of credit subject to certain terms of the lease amendment, including an event of default by Bloomberg. Upon execution of the lease amendment in January 2016, we paid an \$8,916,000 leasing commission of which \$7,200,000 was to a third party broker and \$1,716,000 was to Vornado.

**ALEXANDER'S, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****8. Stock-Based Compensation**

We account for stock-based compensation in accordance with ASC 718. Our 2016 Omnibus Stock Plan, which was adopted in May 2016 replacing the expiring 2006 Omnibus Stock Plan, provides for grants of incentive and non-qualified stock options, restricted stock, stock appreciation rights, deferred stock units (“DSUs”) and performance shares, as defined, to the directors, officers and employees of the Company and Vornado.

In May 2016, we granted each of the members of our Board of Directors 203 DSUs with a grant date fair value of \$56,250 per grant, or \$450,000 in the aggregate. The DSUs entitle the holders to receive shares of the Company’s common stock without the payment of any consideration. The DSUs vested immediately and accordingly, were expensed on the date of grant, but the shares of common stock underlying the DSUs are not deliverable to the grantee until the grantee is no longer serving on the Company’s Board of Directors. As of June 30, 2016, there were 8,505 DSUs outstanding and 498,376 shares were available for future grant under the 2016 Omnibus Stock Plan.

**9. Mortgages Payable**

The following is a summary of our outstanding mortgages payable as of June 30, 2016 and December 31, 2015.

(Amounts in thousands)	Maturity <sup>(1)</sup>	Interest Rate at June 30, 2016	Balance at	
			June 30, 2016	December 31, 2015
First mortgages secured by:				
Rego Park I shopping center (100% cash collateralized) <sup>(2)</sup>	Mar. 2018	0.35 %	\$ 78,246	\$ 78,246
Paramus	Oct. 2018	2.90 %	68,000	68,000
Rego Park II shopping center <sup>(3)</sup>	Nov. 2018	2.31 %	261,654	263,341
731 Lexington Avenue, office space <sup>(4)</sup>	Mar. 2021	1.39 %	300,000	300,000

731 Lexington Avenue, retail space <sup>(5)</sup>	Aug. 2022	1.86 %	350,000	350,000
Total			1,057,900	1,059,587
Deferred debt issuance costs, net of accumulated amortization of \$5,539 and \$4,267 respectively			(5,060)	(6,325)
			\$ 1,052,840	\$ 1,053,262

- (1) Represents the extended maturity where we have the unilateral right to extend.
- (2) Extended in March 2016 for two years.
- (3) Interest at LIBOR plus 1.85%.
- (4) Interest at LIBOR plus 0.95%.
- (5) Interest at LIBOR plus 1.40%.

## 10. Fair Value Measurements

ASC 820, *Fair Value Measurements and Disclosures* defines fair value and establishes a framework for measuring fair value. ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels: Level 1 – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities; Level 2 – observable prices that are based on inputs not quoted in active markets, but corroborated by market data; and Level 3 – unobservable inputs that are used when little or no market data is available. The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, we utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as consider counterparty credit risk in our assessment of fair value.

**ALEXANDER'S, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)****(UNAUDITED)****10. Fair Value Measurements - continued***Financial Assets and Liabilities Measured at Fair Value*

Financial assets measured at fair value on our consolidated balance sheets as of June 30, 2016 and December 31, 2015, consist of marketable securities, which are presented in the table below based on their level in the fair value hierarchy, and an interest rate cap which fair value was insignificant, as of June 30, 2016 and December 31, 2015. There were no financial liabilities measured at fair value as of June 30, 2016 and December 31, 2015.

(Amounts in thousands)	<b>Total</b>	<b>As of June 30, 2016</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Marketable securities	\$ 45,706	\$ 45,706	\$ -	\$ -
Total assets	\$ 45,706	\$ 45,706	\$ -	\$ -

(Amounts in thousands)	<b>Total</b>	<b>As of December 31, 2015</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Marketable securities	\$ 43,191	\$ 43,191	\$ -	\$ -
Total assets	\$ 43,191	\$ 43,191	\$ -	\$ -

*Financial Assets and Liabilities not Measured at Fair Value*

Financial assets and liabilities that are not measured at fair value on our consolidated balance sheets include cash equivalents and mortgages payable. Cash equivalents are carried at cost, which approximates fair value due to their short-term maturities. The fair value of our mortgages payable is calculated by discounting the future contractual cash flows of these instruments using current risk-adjusted rates available to borrowers with similar credit ratings, which are provided by a third-party specialist. The fair value of cash equivalents is classified as Level 1 and the fair values of mortgages payable are classified as Level 2. The table below summarizes the carrying amounts and fair value of these financial instruments as of June 30, 2016 and December 31, 2015.

<b>As of June 30, 2016</b>		<b>As of December 31, 2015</b>	
<b>Carrying</b>	<b>Fair</b>	<b>Carrying</b>	<b>Fair</b>

(Amounts in thousands)	<b>Amount</b>	<b>Value</b>	<b>Amount</b>	<b>Value</b>
Assets:				
Cash equivalents	\$ 204,157	\$ 204,157	\$ 226,476	\$ 226,476
Liabilities:				
Mortgages payable (excluding deferred debt issuance costs)	\$ 1,057,900	\$ 1,046,000	\$ 1,059,587	\$ 1,054,000

**11. Commitments and Contingencies**

Insurance

We maintain general liability insurance with limits of \$300,000,000 per occurrence and per property, and all-risk property and rental value insurance coverage with limits of \$1.7 billion per occurrence, including coverage for acts of terrorism, with sub-limits for certain perils such as floods and earthquakes on each of our properties.



**ALEXANDER'S, INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**(UNAUDITED)**

**11. Commitments and Contingencies – continued**

Fifty Ninth Street Insurance Company, LLC (“FNSIC”), our wholly owned consolidated subsidiary, acts as a direct insurer for coverage for acts of terrorism, including nuclear, biological, chemical and radiological (“NBCR”) acts, as defined by the Terrorism Risk Insurance Program Reauthorization Act, which expires in December 2020. Coverage for acts of terrorism (including NBCR acts) is up to \$1.7 billion per occurrence and in the aggregate. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies with no exposure to FNSIC. For NBCR acts, FNSIC is responsible for a \$348,000 deductible and 16% of the balance of a covered loss, and the Federal government is responsible for the remaining 84% of a covered loss. We are ultimately responsible for any loss incurred by FNSIC.

We continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. However, we cannot anticipate what coverage will be available on commercially reasonable terms in the future. We are responsible for deductibles and losses in excess of our insurance coverage, which could be material.

Our mortgage loans are non-recourse to us and contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. If lenders insist on greater coverage than we are able to obtain, it could adversely affect our ability to finance our properties.

#### Rego Park I Litigation

On June 24, 2014, Sears Roebuck and Co. (“Sears”) filed a lawsuit in the Supreme Court of the State of New York against Vornado and us (and certain of our subsidiaries) with regard to space that Sears leases at our Rego Park I property alleging that the defendants are liable for harm that Sears has suffered as a result of (a) water intrusions into the premises, (b) two fires in February 2014 that caused damages to those premises, and (c) alleged violations of the Americans with Disabilities Act in the premises’ parking garage. Sears asserted various causes of actions for damages and sought to compel compliance with landlord’s obligations to repair the premises and to provide security, and to compel us to abate a nuisance that Sears claims was a cause of the water intrusions into its premises. In addition to injunctive relief, Sears sought, among other things, damages of not less than \$4 million and future damages it estimated would not be less than \$25 million. In March 2016, Sears withdrew its claim for future damages leaving a remaining claim for property damages, which we estimate to be approximately \$650,000 based on information provided by Sears. We intend to defend the remaining claim vigorously. The amount or range of reasonably possible losses, if any, is not expected to be greater than \$650,000.

#### Paramus

In 2001, we leased 30.3 acres of land located in Paramus, New Jersey to IKEA Property, Inc. The lease has a purchase option in 2021 for \$75,000,000. The property is encumbered by a \$68,000,000 interest-only mortgage loan with a fixed rate of 2.90%, which matures in October 2018. The annual triple-net rent is the sum of \$700,000 plus the amount of debt service on the mortgage loan. If the purchase option is exercised, we will receive net cash proceeds of approximately \$7,000,000 and recognize a gain on sale of land of approximately \$60,000,000. If the purchase option is not exercised, the triple-net rent for the last 20 years would include debt service sufficient to fully amortize \$68,000,000 over the remaining 20-year lease term.

#### Letters of Credit

Approximately \$2,074,000 of standby letters of credit were outstanding as of June 30, 2016.

**ALEXANDER’S, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**(UNAUDITED)**

**11. Commitments and Contingencies – continued**

Other

On October 15, 2015, the New York City Department of Finance (“NYC DOF”) issued a Notice of Determination to us assessing an additional \$20,500,000 of transfer taxes (including interest and penalties) in connection with the sale of Kings Plaza in November 2012. We believe that the NYC DOF’s claim is without merit and intend to vigorously contest this assessment. We have determined that the likelihood of a loss related to this issue is not probable and, after consultation with legal counsel, that the outcome of this assessment is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

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

**12. Earnings Per Share**

The following table sets forth the computation of basic and diluted income per share, including a reconciliation of net income and the number of shares used in computing basic and diluted income per share. Basic income per share is determined using the weighted average shares of common stock outstanding during the period. Diluted income per share is determined using the weighted average shares of common stock outstanding during the period, and assumes all potentially dilutive securities were converted into common shares at the earliest date possible. There were no potentially dilutive securities outstanding during the three and six months ended June 30, 2016 and 2015.

(Amounts in thousands, except share and per share amounts)	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 21,767	\$ 17,341	\$ 43,786	\$ 35,163
Weighted average shares outstanding – basic and diluted	5,113,844	5,112,026	5,113,461	5,111,616
Net income per common share – basic and diluted	\$ 4.26	\$ 3.39	\$ 8.56	\$ 6.88

# REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Alexander's, Inc.

Paramus, New Jersey

We have reviewed the accompanying consolidated balance sheet of Alexander's, Inc. and subsidiaries (the "Company") as of June 30, 2016, and the related consolidated statements of income and comprehensive income for the three and six month periods ended June 30, 2016 and 2015, and changes in equity and cash flows for the six month periods ended June 30, 2016 and 2015. These interim financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Alexander's, Inc. and subsidiaries as of December 31, 2015, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended (not presented herein); and in our report dated February 16, 2016, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2015 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Parsippany, New Jersey  
August 1, 2016

## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Certain statements contained in this Quarterly Report constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of future performance. They involve risks, uncertainties and assumptions. Our future results, financial condition, results of operations and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar in this Quarterly Report on Form 10 Q. These forward-looking statements represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For a further discussion of factors that could materially affect the outcome of our forward-looking statements, see "Item 1A - Risk Factors" in our Annual Report on Form 10 K for the year ended December 31, 2015. For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly, any revisions to our forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

Management's Discussion and Analysis of Financial Condition and Results of Operations include a discussion of our consolidated financial statements for the three and six months ended June 30, 2016 and 2015. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the operating results for the full year.

### *Critical Accounting Policies*

A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2015 in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Note 2 – Summary of Significant Accounting Policies" to the consolidated financial statements included therein. There have been no significant changes to these policies during 2016.





## Overview

Alexander's, Inc. (NYSE: ALX) is a real estate investment trust ("REIT"), incorporated in Delaware, engaged in leasing, managing, developing and redeveloping its properties. All references to "we," "us," "our," "Company," and "Alexander's", refer to Alexander's, Inc. and its consolidated subsidiaries. We are managed by, and our properties are leased and developed by, Vornado Realty Trust ("Vornado") (NYSE: VNO). We have seven properties in the greater New York City metropolitan area.

We compete with a large number of property owners and developers. Our success depends upon, among other factors, trends of the world, national and local economies, the financial condition and operating results of current and prospective tenants and customers, the availability and cost of capital, construction and renovation costs, taxes, governmental regulations, legislation, population trends, zoning laws, and our ability to lease, sublease or sell our properties, at profitable levels. Our success is also subject to our ability to refinance existing debt on acceptable terms as it comes due.

### Quarter Ended June 30, 2016 Financial Results Summary

Net income for the quarter ended June 30, 2016 was \$21,767,000, or \$4.26 per diluted share, compared to \$17,341,000, or \$3.39 per diluted share for the quarter ended June 30, 2015. Funds from operations ("FFO") for the quarter ended June 30, 2016 was \$30,999,000, or \$6.06 per diluted share, compared to \$24,642,000, or \$4.82 per diluted share for the quarter ended June 30, 2015. FFO for the quarter ended June 30, 2016 included income of \$2,257,000, or \$0.44 per diluted share, resulting from a tenant lease termination at our Rego Park II property.

### Six Months Ended June 30, 2016 Financial Results Summary

Net income for the six months ended June 30, 2016 was \$43,786,000, or \$8.56 per diluted share, compared to \$35,163,000, or \$6.88 per diluted share for the six months ended June 30, 2015. FFO for the six months ended June 30, 2016 was \$61,249,000, or \$11.98 per diluted share, compared to \$49,778,000, or \$9.74 per diluted share for the six months ended June 30, 2015. FFO for the six months ended June 30, 2016 included income of \$2,257,000, or \$0.44 per diluted share, resulting from a tenant lease termination at our Rego Park II property.

### Square Footage, Occupancy and Leasing Activity

As of June 30, 2016, our portfolio was comprised of seven properties aggregating 2,437,000 square feet. As of June 30, 2016, our office and retail properties had an occupancy rate of 99.7% and The Alexander apartment tower, which

is in lease up, had an occupancy rate of 77.2%.

Financing

In March 2016, we completed a two-year extension of the 100% cash collateralized loan on Rego Park I. The interest-only loan has a fixed rate of 0.35%.

Significant Tenants

Bloomberg L.P. (“Bloomberg”) accounted for revenue of \$52,217,000 and \$46,586,000, representing approximately 46% and 45% of our total revenues for the six months ended June 30, 2016 and 2015, respectively. No other tenant accounted for more than 10% of our total revenues. If we were to lose Bloomberg as a tenant, or if Bloomberg were to be unable to fulfill its obligations under its lease, it would adversely affect our results of operations and financial condition. In order to assist us in our continuing assessment of Bloomberg’s creditworthiness, we receive certain confidential financial information and metrics from Bloomberg. In addition, we access and evaluate financial information regarding Bloomberg from other private sources, as well as publicly available data.

In October 2014, Bloomberg exercised its option to extend leases that were scheduled to expire in December 2015 for a term of five years covering 192,000 square feet of office space at our 731 Lexington Avenue property. In January 2016, we entered into a lease amendment with Bloomberg which extends the lease term related to this space to be coterminous with the other 697,000 square feet of office space leased by Bloomberg through February 2029, with a ten-year extension option. In connection with the lease amendment, Bloomberg provided a \$200,000,000 letter of credit, which amount may be reduced in certain circumstances. We may draw on this letter of credit subject to certain terms of the lease amendment, including an event of default by Bloomberg. Upon execution of the lease amendment in January 2016, we paid an \$8,916,000 leasing commission of which \$7,200,000 was to a third party broker and \$1,716,000 was to Vornado.

## **Results of Operations – Three Months Ended June 30, 2016, compared to June 30, 2015**

### Property Rentals

Property rentals were \$38,878,000 in the quarter ended June 30, 2016, compared to \$34,554,000 in the prior year's quarter, an increase of \$4,324,000. This increase is primarily due to (i) income of \$2,257,000 resulting from a tenant lease termination at our Rego Park II property, (ii) rental income of \$1,470,000 from The Alexander apartment tower, which was placed in service in phases beginning July 2015 and (iii) higher rental income of \$842,000 from the January 2016 lease amendment with Bloomberg at 731 Lexington Avenue.

### Expense Reimbursements

Tenant expense reimbursements were \$18,127,000 in the quarter ended June 30, 2016, compared to \$16,092,000 in the prior year's quarter, an increase of \$2,035,000. This increase is primarily due to (i) higher recoveries of real estate taxes and operating expenses from Bloomberg at 731 Lexington Avenue, as a result of the January 2016 lease amendment, which converted 192,000 square feet from a gross rent basis to a net rent basis and (ii) higher reimbursable real estate taxes.

### Operating Expenses

Operating expenses were \$19,334,000 in the quarter ended June 30, 2016, compared to \$17,549,000 in the prior year's quarter, an increase of \$1,785,000. This increase was primarily due to (i) higher operating expenses of \$1,134,000 related to The Alexander apartment tower and (ii) higher reimbursable real estate taxes of \$776,000; partially offset by (iii) lower reimbursable operating expenses of \$231,000.

### Depreciation and Amortization

Depreciation and amortization was \$9,367,000 in the quarter ended June 30, 2016, compared to \$7,341,000 in the prior year's quarter, an increase of \$2,026,000. This increase was primarily due to (i) depreciation of \$1,177,000 related to The Alexander apartment tower, which was placed in service in phases beginning July 2015 and (ii) additional depreciation and amortization of tenant improvements and deferred leasing costs of \$1,077,000 related to a tenant lease termination at our Rego Park II property in June 2016.

### General and Administrative Expenses

General and administrative expenses were \$1,825,000 in the quarter ended June 30, 2016, compared to \$1,900,000 in the prior year's quarter.

Interest and Other Income, net

Interest and other income, net was \$775,000 in the quarter ended June 30, 2016, compared to \$410,000 in the prior year's quarter, an increase of \$365,000. This increase was primarily due to income in connection with a settlement agreement with a former bankrupt tenant at our Rego Park I property.

Interest and Debt Expense

Interest and debt expense was \$5,455,000 in the quarter ended June 30, 2016, compared to \$6,924,000 in the prior year's quarter, a decrease of \$1,469,000. This decrease was primarily due to (i) savings of \$2,358,000 resulting from the refinancing of the retail portion of 731 Lexington Avenue on August 5, 2015 at LIBOR plus 1.40% (1.86% as of June 30, 2016); as compared to the 4.93% fixed rate on the previous loan, partially offset by (ii) lower capitalized interest as a result of completing the development of The Alexander apartment tower.

Income Taxes

Income tax expense was \$32,000 in the quarter ended June 30, 2016, compared to \$1,000 in the prior year's quarter.

## Results of Operations – Six Months Ended June 30, 2016, compared to June 30, 2015

### Property Rentals

Property rentals were \$75,531,000 in the six months ended June 30, 2016, compared to \$69,055,000 in the prior year's six months, an increase of \$6,476,000. This increase is primarily due to (i) income of \$2,257,000 resulting from a tenant lease termination at our Rego Park II property, (ii) rental income of \$2,254,000 from The Alexander apartment tower, which was placed in service in phases beginning July 2015 and (iii) higher rental income of \$1,682,000 from the January 2016 lease amendment with Bloomberg at 731 Lexington Avenue.

### Expense Reimbursements

Tenant expense reimbursements were \$37,032,000 in the six months ended June 30, 2016, compared to \$33,627,000 in the prior year's six months, an increase of \$3,405,000. This increase is primarily due to (i) higher recoveries of real estate taxes and operating expenses from Bloomberg at 731 Lexington Avenue, as a result of the January 2016 lease amendment, which converted 192,000 square feet from a gross rent basis to a net rent basis and (ii) higher reimbursable real estate taxes.

### Operating Expenses

Operating expenses were \$38,988,000 in the six months ended June 30, 2016, compared to \$36,595,000 in the prior year's six months, an increase of \$2,393,000. This increase was primarily due to (i) higher operating expenses of \$2,001,000 related to The Alexander apartment tower and (ii) higher reimbursable real estate taxes of \$1,414,000; partially offset by (iii) lower reimbursable operating expenses of \$1,015,000.

### Depreciation and Amortization

Depreciation and amortization was \$17,700,000 in the six months ended June 30, 2016, compared to \$14,691,000 in the prior year's six months, an increase of \$3,009,000. This increase was primarily due to (i) depreciation of \$2,331,000 related to The Alexander apartment tower, which was placed in service in phases beginning July 2015 and (ii) additional depreciation and amortization of tenant improvements and deferred leasing costs of \$1,077,000 related to a tenant lease termination at our Rego Park II property in June 2016.

### General and Administrative Expenses

General and administrative expenses were \$3,060,000 in the six months ended June 30, 2016, compared to \$3,170,000 in the prior year's six months.

Interest and Other Income, net

Interest and other income, net was \$1,866,000 in the six months ended June 30, 2016, compared to \$810,000 in the prior year's six months, an increase of \$1,056,000. This increase was primarily due to income in connection with a settlement agreement with a former bankrupt tenant at our Rego Park I property and a cost reimbursement settlement with a retail tenant at our 731 Lexington Avenue property.

Interest and Debt Expense

Interest and debt expense was \$10,861,000 in the six months ended June 30, 2016, compared to \$13,869,000 in the prior year's six months, a decrease of \$3,008,000. This decrease was primarily due to (i) savings of \$4,688,000 resulting from the refinancing of the retail portion of 731 Lexington Avenue on August 5, 2015 at LIBOR plus 1.40% (1.86% as of June 30, 2016); as compared to the 4.93% fixed rate on the previous loan, partially offset by (ii) lower capitalized interest as a result of completing the development of The Alexander apartment tower.

Income Taxes

Income tax expense was \$34,000 in the six months ended June 30, 2016, compared to \$4,000 in the prior year's six months.

## Liquidity and Capital Resources

### *Cash Flows*

Property rental income is our primary source of cash flow and is dependent on a number of factors, including the occupancy level and rental rates of our properties, as well as our tenants' ability to pay their rents. Our properties provide us with a relatively consistent stream of cash flow that enables us to pay our operating expenses, interest expense, recurring capital expenditures and cash dividends to stockholders. Other sources of liquidity to fund cash requirements include our existing cash, proceeds from financings, including mortgage or construction loans secured by our properties and proceeds from asset sales. We anticipate that cash flows from continuing operations over the next twelve months, together with existing cash balances, will be adequate to fund our business operations, cash dividends to stockholders, debt amortization and capital expenditures.

### Six Months Ended June 30, 2016

Cash and cash equivalents were \$235,753,000 as of June 30, 2016, compared to \$259,349,000 as of December 31, 2015, a decrease of \$23,596,000. This decrease resulted from (i) \$42,608,000 of net cash used in financing activities, (ii) \$13,727,000 of net cash used in investing activities, partially offset by (iii) \$32,739,000 of net cash provided by operating activities.

Net cash provided by operating activities of \$32,739,000 was comprised of net income of \$43,786,000, adjustments for non-cash items of \$20,341,000 and the net change in operating assets and liabilities of \$31,388,000 (primarily due to prepaid real estate taxes). The adjustments for non-cash items were comprised of (i) depreciation and amortization (including amortization of debt issuance costs) of \$18,981,000, (ii) straight-lining of rental income of \$910,000 and (iii) stock-based compensation expense of \$450,000.

Net cash used in investing activities of \$13,727,000 was primarily comprised of (i) construction in progress and real estate additions of \$11,146,000 primarily related to The Alexander apartment tower, including the payment of a development fee to Vornado of \$5,784,000 and (ii) an increase in restricted cash of \$2,581,000 primarily related to lease termination funds received that are temporarily restricted by the Rego Park II mortgage.

Net cash used in financing activities of \$42,608,000 was primarily comprised of dividends paid of \$40,905,000.





## Liquidity and Capital Resources – continued

### Six Months Ended June 30, 2015

Cash and cash equivalents were \$211,230,000 as of June 30, 2015, compared to \$227,815,000 as of December 31, 2014, a decrease of \$16,585,000. This decrease resulted from (i) \$37,357,000 of net cash used in financing activities and (ii) \$4,242,000 of net cash used in investing activities, partially offset by (iii) \$25,014,000 of net cash provided by operating activities.

Net cash provided by operating activities of \$25,014,000 was comprised of net income of \$35,163,000 and adjustments for non-cash items of \$15,718,000, partially offset by the net change in operating assets and liabilities of \$25,867,000 (primarily due to prepaid real estate taxes). The adjustments for non-cash items were comprised of (i) depreciation and amortization (including amortization of debt issuance costs) of \$16,061,000, (ii) stock-based compensation expense of \$600,000, partially offset by (iii) straight-lining of rental income of \$943,000.

Net cash used in investing activities of \$4,242,000 was primarily comprised of construction in progress and real estate additions of \$29,356,000 (primarily The Alexander apartment tower) partially offset by proceeds of \$24,998,000 from short-term investments that matured during the second quarter of 2015.

Net cash used in financing activities of \$37,357,000 was primarily comprised of dividends paid of \$35,780,000.

### *Commitments and Contingencies*

#### Insurance

We maintain general liability insurance with limits of \$300,000,000 per occurrence and per property, and all-risk property and rental value insurance coverage with limits of \$1.7 billion per occurrence, including coverage for acts of terrorism, with sub-limits for certain perils such as floods and earthquakes on each of our properties.

Fifty Ninth Street Insurance Company, LLC (“FNSIC”), our wholly owned consolidated subsidiary, acts as a direct insurer for coverage for acts of terrorism, including nuclear, biological, chemical and radiological (“NBCR”) acts, as defined by the Terrorism Risk Insurance Program Reauthorization Act, which expires in December 2020. Coverage for acts of terrorism (including NBCR acts) is up to \$1.7 billion per occurrence and in the aggregate. Coverage for acts of terrorism (excluding NBCR acts) is fully reinsured by third party insurance companies with no exposure to FNSIC. For NBCR acts, FNSIC is responsible for a \$348,000 deductible and 16% of the balance of a covered loss,

and the Federal government is responsible for the remaining 84% of a covered loss. We are ultimately responsible for any loss incurred by FNSIC.

We continue to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. However, we cannot anticipate what coverage will be available on commercially reasonable terms in the future. We are responsible for deductibles and losses in excess of our insurance coverage, which could be material.

Our mortgage loans are non-recourse to us and contain customary covenants requiring us to maintain insurance. Although we believe that we have adequate insurance coverage for purposes of these agreements, we may not be able to obtain an equivalent amount of coverage at reasonable costs in the future. If lenders insist on greater coverage than we are able to obtain, it could adversely affect our ability to finance our properties.

## Liquidity and Capital Resources – continued

### Rego Park I Litigation

On June 24, 2014, Sears Roebuck and Co. (“Sears”) filed a lawsuit in the Supreme Court of the State of New York against Vornado and us (and certain of our subsidiaries) with regard to space that Sears leases at our Rego Park I property alleging that the defendants are liable for harm that Sears has suffered as a result of (a) water intrusions into the premises, (b) two fires in February 2014 that caused damages to those premises, and (c) alleged violations of the Americans with Disabilities Act in the premises’ parking garage. Sears asserted various causes of actions for damages and sought to compel compliance with landlord’s obligations to repair the premises and to provide security, and to compel us to abate a nuisance that Sears claims was a cause of the water intrusions into its premises. In addition to injunctive relief, Sears sought, among other things, damages of not less than \$4 million and future damages it estimated would not be less than \$25 million. In March 2016, Sears withdrew its claim for future damages leaving a remaining claim for property damages, which we estimate to be approximately \$650,000 based on information provided by Sears. We intend to defend the remaining claim vigorously. The amount or range of reasonably possible losses, if any, is not expected to be greater than \$650,000.

### Paramus

In 2001, we leased 30.3 acres of land located in Paramus, New Jersey to IKEA Property, Inc. The lease has a purchase option in 2021 for \$75,000,000. The property is encumbered by a \$68,000,000 interest-only mortgage loan with a fixed rate of 2.90%, which matures in October 2018. The annual triple-net rent is the sum of \$700,000 plus the amount of debt service on the mortgage loan. If the purchase option is exercised, we will receive net cash proceeds of approximately \$7,000,000 and recognize a gain on sale of land of approximately \$60,000,000. If the purchase option is not exercised, the triple-net rent for the last 20 years would include debt service sufficient to fully amortize \$68,000,000 over the remaining 20-year lease term.

### Letters of Credit

Approximately \$2,074,000 of standby letters of credit were outstanding as of June 30, 2016.

### Other

On October 15, 2015, the New York City Department of Finance (“NYC DOF”) issued a Notice of Determination to us assessing an additional \$20,500,000 of transfer taxes (including interest and penalties) in connection with the sale of Kings Plaza in November 2012. We believe that the NYC DOF’s claim is without merit and intend to vigorously contest this assessment. We have determined that the likelihood of a loss related to this issue is not probable and, after consultation with legal counsel, that the outcome of this assessment is not expected to have a material adverse effect on our financial position, results of operations or cash flows.

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

**Funds from Operations (“FFO”)**

FFO is computed in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”). NAREIT defines FFO as GAAP net income or loss adjusted to exclude net gains from sales of depreciated real estate assets, real estate impairment losses, depreciation and amortization expense from real estate assets and other specified non-cash items, including the pro rata share of such adjustments of unconsolidated subsidiaries. FFO and FFO per diluted share are used by management, investors and analysts to facilitate meaningful comparisons of operating performance between periods and among our peers because it excludes the effect of real estate depreciation and amortization and net gains on sales, which are based on historical costs and implicitly assume that the value of real estate diminishes predictably over time, rather than fluctuating based on existing market conditions. FFO does not represent cash generated from operating activities and is not necessarily indicative of cash available to fund cash requirements and should not be considered as an alternative to net income as a performance measure or cash flow as a liquidity measure. FFO may not be comparable to similarly titled measures employed by other companies. A reconciliation of our net income to FFO is provided below.

*FFO for the Three and Six Months Ended June 30, 2016 and 2015*

FFO for the quarter ended June 30, 2016 was \$30,999,000, or \$6.06 per diluted share, compared to \$24,642,000, or \$4.82 per diluted share for the prior year’s quarter.

FFO for the six months ended June 30, 2016 was \$61,249,000, or \$11.98 per diluted share, compared to \$49,778,000, or \$9.74 per diluted share for the prior year's six months.

The following table reconciles our net income to FFO:

(Amounts in thousands, except share and per share amounts)	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 21,767	\$ 17,341	\$ 43,786	\$ 35,163
Depreciation and amortization of real property	9,232	7,301	17,463	14,615
FFO	\$ 30,999	\$ 24,642	\$ 61,249	\$ 49,778
FFO per diluted share	\$ 6.06	\$ 4.82	\$ 11.98	\$ 9.74
Weighted average shares used in computing FFO per diluted share	5,113,844	5,112,026	5,113,461	5,111,616



**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We have exposure to fluctuations in interest rates, which are sensitive to many factors that are beyond our control. Our exposure to a change in interest rates is summarized in the table below.

	2016			2015	
	June 30,	Weighted Average	Effect of 1% Change in	December 31,	Weighted Average
(Amounts in thousands, except per share amounts)	Balance	Interest Rate	Base Rates	Balance	Interest Rate
Variable					
Rate	\$ 911,654	1.83%	\$ 9,117	\$ 913,341	1.71%
Fixed Rate	146,246	1.54%	-	146,246	1.56%
	\$ 1,057,900		\$ 9,117	\$ 1,059,587	
Total effect on diluted earnings per share			\$ 1.78		

As of June 30, 2016 we have an interest rate cap with a notional amount of \$300,000,000 that caps LIBOR at a rate of 6.0%.

*Fair Value of Debt*

The fair value of our consolidated debt is calculated by discounting the future contractual cash flows of these instruments using current risk-adjusted rates available to borrowers with similar credit ratings, which are provided by a third-party specialist. As of June 30, 2016 and December 31, 2015, the estimated fair value of our consolidated debt was \$1,046,000,000 and \$1,054,000,000, respectively. Our fair value estimates, which are made at the end of the reporting period, may be different from the amounts that may ultimately be realized upon the disposition of our financial instruments.



**Item 4. Controls and Procedures**

(a) Disclosure Controls and Procedures: Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

(b) Internal Control Over Financial Reporting: There have not been any changes in our internal control over financial reporting during the fiscal quarter to which this Quarterly Report on Form 10-Q relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

We are from time to time involved in legal actions arising in the ordinary course of business. In our opinion, the outcome of such matters in the aggregate will not have a material effect on our financial condition, results of operations or cash flows.

For a discussion of the litigation concerning our Rego Park I property, see “Part I – Financial Information, Item 1 – Financial Statements, Note 11 – Commitments and Contingencies.”

### **Item 1A. Risk Factors**

There have been no material changes in our “Risk Factors” as previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

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

**SIGNATURES**

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

**ALEXANDER'S, INC.**  
(Registrant)

Date: August 1, 2016

By: /s/ Joseph Macnow  
Joseph Macnow, Executive Vice President and  
Chief Financial Officer (duly authorized officer and  
principal financial and accounting officer)

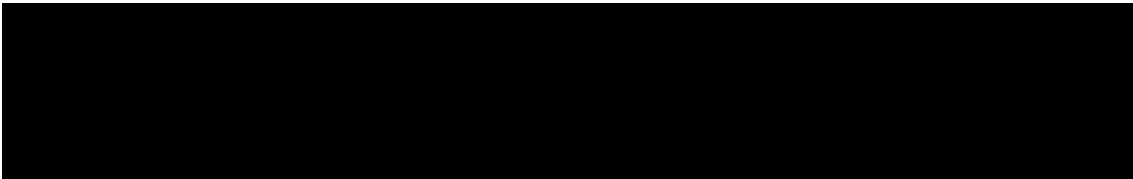
**EXHIBIT  
INDEX**

10.1	<b>Exhibit No.</b>	-	Second Amendment * of Lease, dated as of the 12 <sup>th</sup> of January 2016 by and between 731 Office One LLC and Bloomberg L.P.
10.2		-	Fourth Omnibus ** Loan Modification and Extension Agreement, dated and made effective as of March 8, 2016, by and between Alexander's Rego Shopping Center and U.S. Bank National Association
10.3		-	Fourth Mortgage ** Modification Agreement, dated and made effective as of March 8, 2016, by and between Alexander's

Rego  
Shopping  
Center and  
U.S. Bank  
National  
Association

- 10.4 - Form of Alexander's \*\*\*  
Inc. 2016  
Omnibus  
Stock Plan  
Deferred  
Stock Unit  
Grant  
Agreement  
between the  
Company and  
certain  
employees
- 15.1 Letter  
regarding  
unaudited  
interim  
financial  
information
- 31.1 Rule 13a-14  
(a)  
Certification  
of the Chief  
Executive  
Officer
- 31.2 Rule 13a-14  
(a)  
Certification  
of the Chief  
Financial  
Officer
- 32.1 Section 1350  
Certification  
of the Chief  
Executive  
Officer
- 32.2 - Section 1350  
Certification  
of the Chief

		Financial Officer
101.INS	-	XBRL Instance Document
101.SCH	-	XBRL Taxonomy Extension Schema
101.CAL	-	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	-	XBRL Taxonomy Extension Definition Linkbase
101.LAB	-	XBRL Taxonomy Extension Label Linkbase
101.PRE	-	XBRL Taxonomy Extension Presentation Linkbase



\*

Portions of this exhibit have been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission under Rule 24b-2. The omitted confidential material has been filed separately. The location of the redacted confidential information is indicated in the exhibit as “[redacted]”. Incorporated by reference from Form 10-Q filed on May 2, 2016.

\*\* Incorporated by reference from Form 10-Q filed on May 2, 2016.

\*\*\* Compensatory agreement

