ALEXANDERS INC
Form 10-Q
May 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended: **March 31, 2015**

Or

o **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: **001-6064**

ALEXANDER'S, INC.

(Exact name of registrant as specified in its charter)

Delaware	**51-0100517**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
210 Route 4 East, Paramus, New Jersey	**07652**
(Address of principal executive offices)	(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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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). x Yes o 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.

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

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

As of April 30, 2015, there were 5,106,196 shares of common stock, par value $1 per share, outstanding.

ALEXANDER'S, INC.
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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)

ASSETS		**March 31, 2015**		**December 31, 2014**
Real estate, at cost:				
Land	$	44,971	$	44,971
Buildings and leasehold improvements		874,808		873,667
Development and construction in progress		89,244		75,289
Total		1,009,023		993,927
Accumulated depreciation and amortization		(216,265)		(210,025)
Real estate, net		792,758		783,902
Cash and cash equivalents		239,312		227,815
Short-term investments		24,998		24,998
Restricted cash		84,615		84,602
Marketable securities		45,139		44,646
Tenant and other receivables, net of allowance for doubtful accounts of $1,359 and $1,544, respectively		3,425		2,213
Receivable arising from the straight-lining of rents		180,490		179,939
Deferred lease and other property costs, net, including unamortized leasing fees to Vornado of $33,483 and $33,974, respectively		45,822		46,561
Deferred debt issuance costs, net of accumulated amortization of $11,895 and $11,295, respectively		4,150		4,824
Other assets		12,163		23,716
	$	1,432,872	$	1,423,216
LIABILITIES AND EQUITY				
Mortgages payable	$	1,032,004	$	1,032,780
Amounts due to Vornado		4,658		3,922
Accounts payable and accrued expenses		44,411		35,127
Other liabilities		2,981		2,988
Total liabilities		1,084,054		1,074,817
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	30,139	30,139
Retained earnings	298,936	299,004
Accumulated other comprehensive income	14,944	14,457
	349,192	348,773
Treasury stock: 67,254 shares, at cost	(374)	(374)
Total equity	348,818	348,399
	$ 1,432,872	$ 1,423,216

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)

	Three Months Ended March 31,			
	2015		2014	
REVENUES				
Property rentals	$	34,501	$	34,136
Expense reimbursements		17,535		15,332
Total revenues		52,036		49,468
EXPENSES				
Operating, including fees to Vornado of $1,146 and $1,089, respectively		19,046		16,490
Depreciation and amortization		7,350		7,261
General and administrative, including management fees to Vornado of $595 in each period		1,270		1,187
Total expenses		27,666		24,938
OPERATING INCOME		24,370		24,530
Interest and other income, net		400		401
Interest and debt expense		(6,945)		(9,684)
Income before income taxes		17,825		15,247
Income tax expense		(3)		(3)
Net income	$	17,822	$	15,244
Net income per common share – basic and diluted	$	3.49	$	2.98
Weighted average shares outstanding – basic and diluted		5,111,201		5,109,717
Dividends per common share	$	3.50	$	3.25

See notes to consolidated financial statements (unaudited).

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

	Three Months Ended March 31,	
	2015	**2014**
Net income	$ 17,822	$ 15,244
Other comprehensive income:		
Change in unrealized net gain on available-for-sale securities	493	1,841
Change in value of interest rate cap	(6)	42
Comprehensive income	$ 18,309	$ 17,127

See notes to consolidated financial statements (unaudited).

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

	Common Stock Shares	Common Stock Amount	Additional Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Equity
Balance, December 31, 2013	5,173	$ 5,173	$ 29,745	$ 297,515	$ 1,522	$ (374)	$ 333,581
Net income	-	-	-	15,244	-	-	15,244
Dividends paid	-	-	-	(16,607)	-	-	(16,607)
Change in unrealized net gain on available-for-sale securities	-	-	-	-	1,841	-	1,841
Change in value of interest rate cap	-	-	-	-	42	-	42
Balance, March 31, 2014	5,173	$ 5,173	$ 29,745	$ 296,152	$ 3,405	$ (374)	$ 334,101
Balance, December 31, 2014	5,173	$ 5,173	$ 30,139	$ 299,004	$ 14,457	$ (374)	$ 348,399
Net income	-	-	-	17,822	-	-	17,822
Dividends paid	-	-	-	(17,890)	-	-	(17,890)
Change in unrealized net gain on available-for-sale securities	-	-	-	-	493	-	493
Change in value of interest rate cap	-	-	-	-	(6)	-	(6)
Balance, March 31, 2015	5,173	$ 5,173	$ 30,139	$ 298,936	$ 14,944	$ (374)	$ 348,818

See notes to consolidated financial statements (unaudited).

ALEXANDER'S, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Amounts in thousands)

	Three Months Ended March 31,	
CASH FLOWS FROM OPERATING ACTIVITIES	**2015**	**2014**
Net income	$ 17,822	$ 15,244
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, including amortization of debt issuance costs	8,044	7,898
Straight-lining of rental income	(551)	(641)
Change in operating assets and liabilities:		
Tenant and other receivables, net	(1,212)	193
Other assets	11,165	9,547
Amounts due to Vornado	(29)	(815)
Accounts payable and accrued expenses	9,861	8,888
Other liabilities	(7)	(3)
Net cash provided by operating activities	45,093	40,311
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction in progress and real estate additions	(14,908)	(1,444)
Change in restricted cash	(13)	4,510
Net cash (used in) provided by investing activities	(14,921)	3,066
CASH FLOWS FROM FINANCING ACTIVITIES		
Debt repayments	(776)	(314,937)
Proceeds from borrowing	-	300,000
Dividends paid	(17,890)	(16,607)
Debt issuance costs	(9)	(4,223)
Net cash used in financing activities	(18,675)	(35,767)
Net increase in cash and cash equivalents	11,497	7,610
Cash and cash equivalents at beginning of period	227,815	347,718
Cash and cash equivalents at end of period	$ 239,312	$ 355,328
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest, excluding capitalized interest of $459 and $30, respectively	$ 6,220	$ 10,291
NON-CASH TRANSACTIONS		
Liability for real estate additions (including $4,159 due to Vornado in 2015)	$ 13,717	$ 1,750
Write-off of fully amortized and/or depreciated assets	83	10,569

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" refe 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, 2014, 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 months ended March 31, 2015 are not necessarily indicative of the operating results for the full year.

We currently operate in one business segment.

3. Recently Issued Accounting Literature

In April 2014, the Financial Accounting Standards Board ("FASB") issued an update ("ASU 2014-08") *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* to Accounting Standards Codification ("ASC") Topic 205, *Presentation of Financial Statements* and ASC Topic 360, *Property Plant and Equipment*. Under ASU 2014-08, only disposals that represent a strategic shift that has (or will have) a major effect on the entity's results and operations would qualify as discontinued operations. In addition, ASU 2014-08 expands the disclosure requirements for disposals that meet the definition of a discontinued operation and requires entities to disclose information about disposals of individually significant components that do not meet the definition of discontinued operations. ASU 2014-08 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2014. The adoption of this update on January 1, 2015 did not have any impact on our consolidated financial statements.

In May 2014, the FASB issued an update ("ASU 2014-09") establishing ASC Topic 606 *Revenue from Contracts with Customers*. 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, 2016. We are currently evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements.

In April 2015, the FASB issued an update ("ASU 2015-03") *Simplifying the Presentation of Debt Issuance Costs* to ASC Topic 835, *Interest*. ASU 2015-03 requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liability to which they relate, consistent with debt discounts, as opposed to being presented as assets. ASU 2015-03 is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2015. The adoption of this update on January 1, 2016 will not have a material impact on our consolidated financial statements.

ALEXANDER'S, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Relationship with Vornado

At March 31, 2015, 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) $280,000, 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.

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. Prior to December 22, 2014, the total of these amounts was payable in annual installments in an amount not to exceed $4,000,000, with interest on the unpaid balance at one-year LIBOR plus 1.0%. On December 22, 2014, the leasing agreements with Vornado were amended to eliminate the annual installment cap of $4,000,000 and we paid the accrued balance of leasing commissions of $40,353,000 to Vornado.

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 Lexington Avenue property and (ii) security services at our Rego Park I and Rego Park II properties, for an annual fee equal to the cost of such services plus 6%.

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

	Three Months Ended March 31,	
(Amounts in thousands)	**2015**	**2014**
Company management fees	$ 700	$ 700
Development fees	764	-
Leasing fees	382	178

Property management fees and payments for cleaning, engineering and security services		930		870
	$	2,776	$	1,748

At March 31, 2015, there was due to Vornado $4,159,000 for development fees, $463,000 for management, property management, cleaning and security fees and $36,000 for leasing fees.

ALEXANDER'S, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

5. Rego Park II Apartment Tower

We are in the process of constructing an apartment tower above our Rego II shopping center, containing 312 units aggregating 255,000 square feet, which is expected to be completed in 2015. The estimated cost of this project is approximately $125,000,000, of which $87,087,000 has been incurred as of March 31, 2015. There can be no assurance that the project will be completed on schedule or within budget.

6. Marketable Securities

As of March 31, 2015 and December 31, 2014, 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 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 March 31, 2015 and December 31, 2014, the fair value of these shares was $45,139,000 and $44,646,000, respectively, based on Macerich's closing share price of $84.33 per share and $83.41 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 $23,402,000 and $22,017,000, representing 45% of our total revenues in each of the three-month periods ended March 31, 2015 and 2014, 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 assessments of Bloomberg’s creditworthiness, we receive and evaluate certain confidential financial information and metrics provided by Bloomberg on a semi-annual basis. In addition, we access and evaluate financial information regarding Bloomberg from 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 covering 188,608 square feet of office space at our 731 Lexington Avenue property for a term of 5 years. We are currently in negotiations with Bloomberg to determine the rental rate for the extension period.

ALEXANDER’S, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

8. Mortgages Payable

The following is a summary of our outstanding mortgages payable as of March 31, 2015 and December 31, 2014.

			Balance at	
(Amounts in thousands)	**Maturity[1]**	**Interest Rate at March 31, 2015**	**March 31, 2015**	**December 31, 2014**
First mortgages secured by:				
731 Lexington Avenue, retail space[2]	Aug. 2015	4.93 %	$ 320,000	$ 320,000
Rego Park I shopping center (100% cash				