ALEXANDERS INC
Form 10-Q
May 05, 2008

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, 2008**

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 (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)

(212) 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 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.

o Large Accelerated Filer	x 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 March 31, 2008, there were 5,045,950 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)

	March 31, 2008	December 31, 2007
ASSETS		
Real estate, at cost:		
Land	$ 74,921	$ 69,455
Buildings, leaseholds and leasehold improvements	593,911	593,818
Construction in progress	191,734	171,808
Total	860,566	835,081
Accumulated depreciation and amortization	(100,477)	(96,183)
Real estate, net	760,089	738,898
Cash and cash equivalents	576,530	560,231
Restricted cash	8,518	4,987
Accounts receivable, net of allowance for doubtful accounts of $661 and $667, respectively	4,612	6,217
Receivable arising from the straight-lining of rents	133,559	130,483
Deferred lease and other property costs, net (including unamortized leasing fees to Vornado of $41,290 and $41,988, respectively)	65,080	66,243
Deferred debt issuance costs, net	14,891	15,553
Other assets	10,181	9,798
TOTAL ASSETS	$ 1,573,460	$ 1,532,410
LIABILITIES AND STOCKHOLDERS EQUITY		
Debt	$ 1,132,387	$ 1,110,197
Accounts payable and accrued expenses	57,616	55,655
Liability for stock appreciation rights	142,062	141,437
Amounts due to Vornado	41,192	40,561
Liability for income taxes and other	47,751	47,134
TOTAL LIABILITIES	1,421,008	1,394,984
MINORITY INTEREST	2,056	2,323
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY		
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 5,045,950 shares and 5,043,950 shares, respectively	5,173	5,173
Additional paid-in capital	27,766	27,636
Retained earnings	118,166	103,014
	151,105	135,823
Treasury shares: 127,500 and 129,500 shares, at cost	(709)	(720)
Total stockholders equity	150,396	135,103
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,573,460	$ 1,532,410

See notes to consolidated financial statements.

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ALEXANDER S, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

(Amounts in thousands, except per share amounts)

	Three Months Ended March 31,	
	2008	**2007**
REVENUES		
Property rentals	$ 36,033	$ 34,874
Expense reimbursements	15,733	17,322
Total revenues	51,766	52,196
EXPENSES		
Operating (including fees to Vornado of $1,203 and $1,206, respectively)	17,667	17,925
General and administrative (including stock appreciation rights (SARs) expense of $625 in 2008, and a reversal of previously recognized SARs expense of $14,311 in 2007, and management fees to Vornado of $540 in each period)	1,846	(12,659)
Depreciation and amortization	5,601	5,509
Total expenses	25,114	10,775
OPERATING INCOME	26,652	41,421
Interest and other income, net	4,416	7,062
Interest and debt expense	(15,681)	(16,638)
Minority interest of partially owned entity	267	331
Income before income taxes	15,654	32,176
Income tax expense of taxable REIT subsidiary	(502)	
NET INCOME	$ 15,152	$ 32,176
Net income per common share - basic	$ 3.00	$ 6.39
Net income per common share - diluted	$ 2.98	$ 6.32

See notes to consolidated financial statements.

ALEXANDER S, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Amounts in thousands)

	Three Months Ended March 31, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 15,152	$ 32,176
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Liability for stock appreciation rights	625	(15,049)
Depreciation and amortization (including amortization of debt issuance costs)	6,263	6,171
Straight-lining of rental income	(3,076)	(3,721)
Minority interest of partially owned entity	(267)	(331)
Change in operating assets and liabilities:		
Accounts receivable, net	1,605	(2,802)
Other assets	(527)	(599)
Amounts due to Vornado	631	945
Accounts payable and accrued expenses	3,715	8,415
Payment for stock appreciation rights		(50,465)
FIN 48 Income tax liability	634	
Other liabilities	(17)	700
Net cash provided by (used in) operating activities	24,738	(24,560)
CASH FLOWS FROM INVESTING ACTIVITIES		
Construction in progress and real estate additions	(27,239)	(26,112)
Restricted cash	(3,531)	(3,543)
Net cash used in investing activities	(30,770)	(29,655)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings	25,875	
Debt repayments	(3,685)	(3,586)
Exercise of stock options	141	211
Net cash provided by (used in) financing activities	22,331	(3,375)
Net increase (decrease) in cash and cash equivalents	16,299	(57,590)
Cash and cash equivalents at beginning of period	560,231	615,516
Cash and cash equivalents at end of period	$ 576,530	$ 557,926
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest (of which $2,380 and $671 have been capitalized)	$ 16,848	$ 16,045
Cash payments for income taxes	$ 702	$

See notes to consolidated financial statements.

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, or Company 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 consolidated balance sheet at March 31, 2008, the consolidated statements of operations for the three months ended March 31, 2008 and 2007, and the consolidated statements of cash flows for the three months ended March 31, 2008 and 2007 are unaudited. In our opinion, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position, results of operations and 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 have been condensed or omitted in accordance with Article 10 of Regulation S-X and the instructions to Form 10-Q. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2007, as filed with the Securities and Exchange Commission. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of the operating results for the full year.

The accompanying consolidated financial statements include our accounts and that of our consolidated subsidiaries. All significant intercompany amounts have been eliminated. 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.

We currently operate in one business segment.

3. Recently Issued Accounting Literature

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 became effective for our financial assets and liabilities on January 1, 2008. The FASB has deferred the implementation of the provisions of SFAS No. 157 relating to certain nonfinancial assets and liabilities until January 1, 2009. SFAS No. 157 did not materially affect how we determine fair value.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits companies to measure many financial instruments and certain other items at fair value. SFAS No. 159 became effective for us on January 1, 2008. We have not elected the fair value option for any of our existing financial instruments on the effective date and have not determined whether or not we will elect this option for any eligible financial instruments we acquire in the future.

ALEXANDER S, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

3. Recently Issued Accounting Literature - continued

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. SFAS No. 141R broadens the guidance of SFAS No. 141, extending its applicability to all transactions and other events in which one entity obtains control over one or more other businesses. It broadens the fair value measurement and recognition of assets acquired, liabilities assumed, and interests transferred as a result of business combinations; and stipulates that acquisition related costs be expensed rather than included as part of the basis of the acquisition. SFAS No. 141R expands required disclosures to improve the ability to evaluate the nature and financial effects of business combinations. SFAS No. 141R is effective for all transactions entered into, on or after January 1, 2009. We are currently evaluating the impact SFAS No. 141R will have on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51*. SFAS No. 160 requires a noncontrolling interest in a subsidiary to be reported as equity and the amount of consolidated net income specifically attributable to the noncontrolling interest to be identified in the consolidated financial statements. SFAS No. 160 also calls for consistency in the manner of reporting changes in the parent s ownership interest and requires fair value measurement of any noncontrolling equity investment retained in a deconsolidation. SFAS No. 160 is effective on January 1, 2009. We are currently evaluating the impact SFAS No. 160 will have on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133.* SFAS No. 161 expands the disclosure requirements in SFAS No. 133, regarding an entity s derivative instruments and hedging activities. SFAS No. 161 is effective on January 1, 2009. We believe that the adoption of SFAS No. 161 on January 1, 2009, will not have a material effect on our consolidated financial statements.

4. Relationship with Vornado

At March 31, 2008, Vornado owned 32.8% 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.

<u>*Management and Development Agreements*</u>

We pay Vornado an annual management fee 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) $227,000, escalating at 3% per annum, for managing the common area of 731 Lexington Avenue.

In addition, Vornado is entitled to a development fee of 6% of development costs, as defined, with minimum guaranteed fees of $750,000 per annum. The development fee for the Rego Park II project (see note 5) is estimated to be approximately $17,500,000, of which $2,059,000 has been paid as of March 31, 2008. The balance is due on substantial completion of the construction.

<u>*Leasing Agreements*</u>

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. The total of these amounts is payable in annual installments in an amount not to exceed $4,000,000, with interest on the unpaid balance at LIBOR plus 1.0% (5.19% at March 31, 2008).

ALEXANDER S, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

4. Relationship with Vornado - continued

Other Agreements

We have also entered into agreements with Building Maintenance Services, a wholly owned subsidiary of Vornado, to supervise cleaning, engineering and security services at our Lexington Avenue and Kings Plaza properties for an annual fee of the cost for such services plus 6%.

The following is a summary of fees to Vornado that were incurred under the agreements discussed above.

(Amounts in thousands)	Three Months Ended March 31, 2008	2007
Company management fees	$ 750	$ 750
Development fees	1,263	738
Leasing fees	633	1,686
Property management fees and payments for cleaning, engineering and security services	993	996
	$ 3,639	$ 4,170

At March 31, 2008, we owed Vornado $33,112,000 for leasing fees, $6,799,000 for the earned portion of the Rego II development fee discussed above, and $1,281,000 for management, property management and cleaning fees.

5. Rego Park II Project

We own approximately 6.6 acres of land adjacent to our Rego Park I property in Queens, New York, which comprises the entire square block bounded by the Horace Harding Service Road (of the Long Island Expressway), 97th Street, 62nd Drive and Junction Boulevard. The development at Rego Park II consists of a 600,000 square foot shopping center on four levels and a parking deck containing approximately 1,400 spaces. Construction has commenced, is expected to be completed in 2009 and estimated to cost approximately $410,000,000, of which $189,185,000 has been expended as of March 31, 2008. The development may also include an apartment tower containing up to 315 apartments. The shopping center will be anchored by a 134,000 square foot Century 21 department store, a 138,000 square foot Home Depot and a 132,000 square foot Kohl s.

There can be no assurance that this project will be completed, completed on time, or completed for the budgeted amount.

6. Debt

The following is a summary of our outstanding debt.

(Amounts in thousands)	**Maturity**	**Interest Rate at March 31, 2008**	**Balance at March 31, 2008**	**December 31, 2007**
First mortgage, secured by the office space at the Lexington Avenue property	Feb. 2014	5.33%	$ 381,185	$ 383,670
First mortgage, secured by the retail space at the Lexington Avenue property (1)	Jul. 2015	4.93%	320,000	320,000
First mortgage, secured by the Kings Plaza Regional Shopping Center	Jun. 2011	7.46%	202,483	203,456
First mortgage, secured by the Rego Park I Shopping Center	Jun. 2009	7.25%	79,058	