
**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 ended: September 30, 2017

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

Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 October 30, 2017, there were 5,107,290 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 | September 30, 2017 | December 31, 2016 |
|--|-----------------------|----------------------|
| Real estate, at cost: | | |
| Land | \$ 44,971 | \$ 44,971 |
| Buildings and leasehold improvements | 988,261 | 985,800 |
| Development and construction in progress | 3,276 | 2,780 |
| Total | 1,036,508 | 1,033,551 |
| Accumulated depreciation and amortization | (273,898) | (252,737) |
| Real estate, net | 762,610 | 780,814 |
| Cash and cash equivalents | 280,010 | 288,926 |
| Restricted cash | 84,504 | 85,752 |
| Rego Park II loan participation | 199,275 | - |
| Marketable securities | 29,424 | 37,918 |
| Tenant and other receivables, net of allowance for doubtful accounts of \$1,476 and \$1,473, respectively | 4,003 | 3,056 |
| Receivable arising from the straight-lining of rents | 175,787 | 179,010 |
| Deferred leasing costs, net, including unamortized leasing fees to Vornado of \$34,251 and \$36,960, respectively | 44,951 | 48,387 |
| Other assets | 41,493 | 27,367 |
| | \$ 1,622,057 | \$ 1,451,230 |
| | | |
| LIABILITIES AND EQUITY | | |
| Mortgages payable, net of deferred debt issuance costs | \$ 1,240,069 | \$ 1,052,359 |
| Amounts due to Vornado | 533 | 897 |
| Accounts payable and accrued expenses | 36,461 | 42,200 |
| Other liabilities | 2,908 | 2,929 |
| Total liabilities | 1,279,971 | 1,098,385 |
| 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, 5,107,290 and, 5,106,196 shares, respectively | 5,173 | 5,173 |
| Additional capital | 31,577 | 31,189 |
| Retained earnings | 306,403 | 308,995 |
| Accumulated other comprehensive (loss) income | (699) | 7,862 |
| | 342,454 | 353,219 |
| Treasury stock: 66,160 shares and 67,254 shares respectively, at cost | (368) | (374) |
| Total equity | 342,086 | 352,845 |
| | \$ 1,622,057 | \$ 1,451,230 |

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)

| | <u>Three Months Ended</u> <u>September 30,</u> | | <u>Nine Months Ended</u> <u>September 30,</u> | |
|---|---|------------------|--|------------------|
| | <u>2017</u> | <u>2016</u> | <u>2017</u> | <u>2016</u> |
| REVENUES | | | | |
| Property rentals | \$ 37,970 | \$ 37,598 | \$ 114,507 | \$ 113,129 |
| Expense reimbursements | 20,124 | 19,522 | 58,006 | 56,554 |
| Total revenues | <u>58,094</u> | <u>57,120</u> | <u>172,513</u> | <u>169,683</u> |
| EXPENSES | | | | |
| Operating, including fees to Vornado of \$1,146, \$1,082, \$3,365 and \$3,389, respectively | 21,272 | 21,714 | 62,937 | 60,702 |
| Depreciation and amortization | 8,430 | 8,045 | 24,613 | 25,745 |
| General and administrative, including management fees to Vornado of \$595 and \$1,785 in each three and nine month period, respectively | 1,228 | 1,225 | 4,080 | 4,285 |
| Total expenses | <u>30,930</u> | <u>30,984</u> | <u>91,630</u> | <u>90,732</u> |
| OPERATING INCOME | 27,164 | 26,136 | 80,883 | 78,951 |
| Interest and other income, net | 2,081 | 522 | 4,105 | 2,388 |
| Interest and debt expense | (8,940) | (5,615) | (22,355) | (16,476) |
| Income before income taxes | 20,305 | 21,043 | 62,633 | 64,863 |
| Income tax expense | (6) | (7) | (7) | (41) |
| Net income | <u>\$ 20,299</u> | <u>\$ 21,036</u> | <u>\$ 62,626</u> | <u>\$ 64,822</u> |
| Net income per common share – basic and diluted | <u>\$ 3.97</u> | <u>\$ 4.11</u> | <u>\$ 12.24</u> | <u>\$ 12.68</u> |
| Weighted average shares outstanding – basic and diluted | <u>5,115,982</u> | <u>5,114,701</u> | <u>5,115,339</u> | <u>5,113,877</u> |
| Dividends per common share | <u>\$ 4.25</u> | <u>\$ 4.00</u> | <u>\$ 12.75</u> | <u>\$ 12.00</u> |

See notes to consolidated financial statements (unaudited).

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

| | Three Months Ended | | Nine Months Ended | |
|--|---------------------------|------------------|--------------------------|------------------|
| | September 30, | | September 30, | |
| | 2017 | 2016 | 2017 | 2016 |
| Net income | \$ 20,299 | \$ 21,036 | \$ 62,626 | \$ 64,822 |
| Other comprehensive (loss) income: | | | | |
| Change in unrealized net gain or loss on available-for-sale securities | (1,653) | (2,419) | (8,494) | 96 |
| Change in value of interest rate cap | (11) | 37 | (67) | 80 |
| Comprehensive income | <u>\$ 18,635</u> | <u>\$ 18,654</u> | <u>\$ 54,065</u> | <u>\$ 64,998</u> |

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 Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Equity |
|---|--------------|-----------------|-----------------------|----------------------|--|-------------------|-------------------|
| | Shares | Amount | | | | | |
| Balance, December 31, 2015 | 5,173 | \$ 5,173 | \$ 30,739 | \$ 304,340 | \$ 13,002 | \$ (374) | \$ 352,880 |
| Net income | - | - | - | 64,822 | - | - | 64,822 |
| Dividends paid | - | - | - | (61,363) | - | - | (61,363) |
| Change in unrealized net gain on available-for-sale securities | - | - | - | - | 96 | - | 96 |
| Change in value of interest rate cap | - | - | - | - | 80 | - | 80 |
| Deferred stock unit grants | - | - | 450 | - | - | - | 450 |
| Balance, September 30, 2016 | <u>5,173</u> | <u>\$ 5,173</u> | <u>\$ 31,189</u> | <u>\$ 307,799</u> | <u>\$ 13,178</u> | <u>\$ (374)</u> | <u>\$ 356,965</u> |
| Balance, December 31, 2016 | 5,173 | \$ 5,173 | \$ 31,189 | \$ 308,995 | \$ 7,862 | \$ (374) | \$ 352,845 |
| Net income | - | - | - | 62,626 | - | - | 62,626 |
| Dividends paid | - | - | - | (65,218) | - | - | (65,218) |
| Change in unrealized net gain or loss on available-for-sale securities | - | - | - | - | (8,494) | - | (8,494) |
| Change in value of interest rate cap | - | - | - | - | (67) | - | (67) |
| Deferred stock unit grants | - | - | 394 | - | - | - | 394 |
| Other | - | - | (6) | - | - | 6 | - |
| Balance, September 30, 2017 | <u>5,173</u> | <u>\$ 5,173</u> | <u>\$ 31,577</u> | <u>\$ 306,403</u> | <u>\$ (699)</u> | <u>\$ (368)</u> | <u>\$ 342,086</u> |

See notes to consolidated financial statements (unaudited).

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

| | Nine Months Ended | |
|---|--------------------------|-------------------|
| | September 30, | |
| | 2017 | 2016 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 62,626 | \$ 64,822 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization, including amortization of debt issuance costs | 27,049 | 27,666 |
| Straight-lining of rental income | 3,223 | 1,594 |
| Stock-based compensation expense | 394 | 450 |
| Changes in operating assets and liabilities: | | |
| Tenant and other receivables, net | (947) | 1,081 |
| Other assets | (14,209) | (23,088) |
| Amounts due to Vornado | (334) | (1,951) |
| Accounts payable and accrued expenses | (5,571) | 11,346 |
| Other liabilities | (21) | (22) |
| Net cash provided by operating activities | <u>72,210</u> | <u>81,898</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Construction in progress and real estate additions | (3,155) | (13,441) |
| Rego Park II loan participation payment | (200,000) | - |
| Principal repayment proceeds from Rego Park II loan participation | 725 | - |
| Net cash used in investing activities | <u>(202,430)</u> | <u>(13,441)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Debt repayments | (302,754) | (2,555) |
| Proceeds from borrowing | 500,000 | - |
| Dividends paid | (65,218) | (61,363) |
| Debt issuance costs | (11,972) | (16) |
| Net cash provided by (used in) financing activities | <u>120,056</u> | <u>(63,934)</u> |
| Net (decrease) increase in cash and cash equivalents and restricted cash | (10,164) | 4,523 |
| Cash and cash equivalents and restricted cash at beginning of period | 374,678 | 344,656 |
| Cash and cash equivalents and restricted cash at end of period | <u>\$ 364,514</u> | <u>\$ 349,179</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH | | |
| Cash and cash equivalents at beginning of period | \$ 288,926 | \$ 259,349 |
| Restricted cash at beginning of period | 85,752 | 85,307 |
| Cash and cash equivalents and restricted cash at beginning of period | <u>\$ 374,678</u> | <u>\$ 344,656</u> |
| Cash and cash equivalents at end of period | \$ 280,010 | \$ 264,147 |
| Restricted cash at end of period | 84,504 | 85,032 |
| Cash and cash equivalents and restricted cash at end of period | <u>\$ 364,514</u> | <u>\$ 349,179</u> |
| SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION | | |
| Cash payments for interest | \$ 19,358 | \$ 14,469 |
| NON-CASH TRANSACTIONS | | |
| Liability for real estate additions, including \$24 and \$92 for development fees due to Vornado in 2017 and 2016, respectively | \$ 124 | \$ 1,053 |
| Write-off of fully amortized and/or depreciated assets | 4,265 | 1,691 |
| Change in unrealized net gain or loss on available-for-sale securities | (8,494) | 96 |

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). We have seven properties in the greater New York City metropolitan area.

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, 2016, 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 nine months ended September 30, 2017 are not necessarily indicative of the operating results for the full year.

We operate in one reportable segment.

3. 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, as amended by subsequent ASUs on the topic, 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. This standard, which is effective for interim and annual reporting periods in fiscal years that begin after December 15, 2017, requires an entity to recognize revenue to depict the transfer of 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. We will adopt this standard effective January 1, 2018, with the exception of the components of revenue from leases, which has been deferred until the adoption of the update ASU 2016-02 to ASC Topic 842, *Leases*, on January 1, 2019. We will utilize the modified retrospective method when adopting ASU 2014-09, which requires a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption. We have analyzed our revenue streams and identified the areas that we expect to be impacted by the adoption of this standard. We expect that this standard will have an impact on the classification of reimbursements of real estate taxes and insurance expenses and certain non-lease components of revenue (e.g., reimbursements of common area maintenance expenses) from leases on our consolidated statements of income, with no impact on "total revenues" for new leases executed on or after January 1, 2019. We are in the process of completing the evaluation of the overall impact of this standard on our consolidated financial statements, including required informational disclosures for our revenue streams beginning with the first reporting period after adoption.

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. ASU 2016-01 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. While the adoption of this standard requires us to continue to measure "marketable securities" at fair value at each reporting date, the changes in fair value will be recognized in current period earnings as opposed to "other comprehensive income (loss)."

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

3. Recently Issued Accounting Literature – continued

In February 2016, the FASB issued an update ASU 2016-02 establishing ASC Topic 842, *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. We are currently evaluating the overall impact of the adoption of ASU 2016-02 on our consolidated financial statements and believe that the standard will more significantly impact the accounting for leases in which we are a lessee. We will be required to record a right-of-use asset and lease liability for our Flushing property ground lease, equal to the present value of the remaining minimum lease payments upon adoption of this standard. We also expect that this standard will require us to allocate total consideration from leases between lease and non-lease components based on the estimated stand-alone selling prices of the components. The lease components (e.g., base rent) will continue to be recognized on a straight-line basis over the term of the lease and certain non-lease components (e.g., reimbursements of common area maintenance expenses) will be accounted for under the new revenue recognition guidance of ASU 2014-09. As a result, we expect that this standard will have an impact on the classification of reimbursements of real estate taxes, insurance expenses and common area maintenance expenses on our consolidated statements of income, with no impact on “total revenues” for new leases executed on or after January 1, 2019. ASU 2016-02 is effective for reporting periods beginning after December 15, 2018, with early adoption permitted. We will adopt this standard as of January 1, 2019 under the modified retrospective approach and will elect to use the practical expedients provided by this standard.

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 was effective for interim and annual reporting periods in fiscal years beginning after December 15, 2016. The adoption of this update as of January 1, 2017, did not have any impact on our consolidated financial statements.

In August 2016, the FASB issued an update (“ASU 2016-15”) *Classification of Certain Cash Receipts and Cash Payments* to ASC Topic 230, *Statement of Cash Flows*. ASU 2016-15 clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows to reduce diversity in practice with respect to (i) debt prepayment or debt extinguishment costs, (ii) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (iii) contingent consideration payments made after a business combination, (iv) proceeds from the settlement of insurance claims, (v) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (vi) distributions received from equity method investees, (vii) beneficial interests in securitization transactions, and (viii) separately identifiable cash flows and application of the predominance principle. ASU 2016-15 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted. We elected to early adopt ASU 2016-15 effective January 1, 2017. The adoption of this update did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued an update (“ASU 2016-18”) *Restricted Cash* to ASC Topic 230, *Statement of Cash Flows*. ASU 2016-18 requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. Restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning of period and end of period balances on the statement of cash flows upon adoption of this standard. ASU 2016-18 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017, with early adoption permitted. We elected to early adopt ASU 2016-18 effective January 1, 2017, with retrospective application to our consolidated statements of cash flows. Accordingly, the consolidated statements of cash flows present a reconciliation of the changes in cash and cash equivalents and restricted cash. Restricted cash primarily consists of cash held in a non-interest bearing escrow account in connection with our Rego Park I 100% cash collateralized mortgage, as well as security deposits and other cash escrowed under loan agreements for debt service, real estate taxes, property insurance and capital improvements.

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

3. Recently Issued Accounting Literature – continued

In February 2017, the FASB issued an update (“ASU 2017-05”) *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* to ASC Subtopic 610-20, *Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets*. ASU 2017-05 clarifies the scope of recently established guidance on nonfinancial asset derecognition as well as the accounting for partial sales of nonfinancial assets. This update conforms the derecognition guidance on nonfinancial assets with the model for transactions in ASC 606. ASU 2017-05 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2017. The adoption of this standard is not expected to have an impact on our consolidated financial statements.

In August 2017, the FASB issued an update (“ASU 2017-12”) *Targeted Improvements to Accounting for Hedging Activities* to ASC Topic 815, *Derivatives and Hedging* (“ASC 815”). ASU 2017-12 amends the hedge accounting recognition and presentation requirements in ASC 815. The update is intended to more closely align hedge accounting with companies’ risk management strategies, simplify the application of hedge accounting and increase transparency as to the scope and results of hedge programs. ASU 2017-12 is effective for interim and annual reporting periods in fiscal years beginning after December 15, 2018, with early adoption permitted. The adoption of this standard is not expected to have a material impact on our consolidated financial statements.

4. Rego Park II Loan Participation

On July 28, 2017, we entered into a participation and servicing agreement with the lender on our Rego Park II shopping center loan, which matures on November 30, 2018. We paid \$200,000,000 to participate in the loan and are entitled to interest of LIBOR plus 1.60% (2.84% as of September 30, 2017). The investment is presented as “Rego Park II loan participation” on our consolidated balance sheet as of September 30, 2017 and interest earned is recognized as “interest and other income, net” in our consolidated statements of income for the three and nine months ended September 30, 2017.

5. Related Party Transactions

Vornado

As of September 30, 2017, 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) \$306,000, 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.

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 and The Alexander apartment tower.

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

5. Related Party Transactions – continued

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

| (Amounts in thousands) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------------|------------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Company management fees | \$ 700 | \$ 700 | \$ 2,100 | \$ 2,100 |
| Development fees | - | 44 | 32 | 163 |
| Leasing fees | 3 | 106 | 18 | 7,397 |
| Property management fees and payments for cleaning and security services | 1,006 | 938 | 2,947 | 2,969 |
| | <u>\$ 1,709</u> | <u>\$ 1,788</u> | <u>\$ 5,097</u> | <u>\$ 12,629</u> |

As of September 30, 2017, the amounts due to Vornado were \$24,000 for development fees; \$507,000 for management, property management, cleaning and security fees; and \$2,000 for leasing fees. As of December 31, 2016, the amounts due to Vornado were \$54,000 for development fees; \$428,000 for management, property management, cleaning and security fees; and \$415,000 for leasing fees. In January 2016, we paid an \$8,916,000 leasing commission related to the Bloomberg L.P. (“Bloomberg”) lease amendment, of which \$7,200,000 was to a third party broker and \$1,716,000 was to Vornado. In March 2016, we paid Vornado a development fee of \$5,784,000 related to The Alexander apartment tower.

Toys “R” Us (“Toys”)

Our affiliate, Vornado, owns 32.5% of Toys. Joseph Macnow, Vornado’s Executive Vice President and Chief Financial Officer and Wendy A. Silverstein, a member of our Board of Directors, represent Vornado as members of Toys’ Board of Directors. Toys leases 47,000 square feet of retail space at our Rego Park II shopping center (\$2,700,000 of annual revenue). On September 18, 2017, Toys filed for Chapter 11 bankruptcy relief. There are \$1,617,000 of unamortized assets on our consolidated balance sheet related to the Toys lease as of September 30, 2017, including tenant improvements, deferred leasing costs and receivables arising from the straight-lining of rent.

6. Marketable Securities

As of September 30, 2017 and December 31, 2016, we owned 535,265 common shares of The Macerich Company (“Macerich”) (NYSE: MAC). These shares have an economic cost of \$56.05 per share, or \$30,000,000 in the aggregate. As of September 30, 2017 and December 31, 2016, the fair value of these shares was \$29,424,000 and \$37,918,000, respectively, based on Macerich’s closing share price of \$54.97 per share and \$70.84 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 (loss) income.”

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

7. Significant Tenant

Bloomberg accounted for revenue of \$78,786,000 and \$78,567,000 for the nine months ended September 30, 2017 and 2016, respectively, representing approximately 46% of our total revenues in each period. 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.

8. Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718. Our 2016 Omnibus Stock Plan (the "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.

On May 18, 2017, we granted each of the members of our Board of Directors 183 DSUs with a grant date fair value of \$56,250 per grant, or \$394,000 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 September 30, 2017, there were 8,692 DSUs outstanding and 497,095 shares were available for future grant under the Plan.

9. Mortgages Payable

On June 1, 2017, we completed a \$500,000,000 refinancing of the office portion of 731 Lexington Avenue. The interest-only loan is at LIBOR plus 0.90% and matures in June 2020, with four one-year extension options. In connection therewith, we purchased an interest rate cap with a notional amount of \$500,000,000 that caps LIBOR at a rate of 6.0%. The property was previously encumbered by a \$300,000,000 interest-only mortgage at LIBOR plus 0.95% which was scheduled to mature in March 2021.

The following is a summary of our outstanding mortgages payable as of September 30, 2017 and December 31, 2016.

| (Amounts in thousands) | <u>Maturity</u> ⁽¹⁾ | <u>Interest Rate at September 30, 2017</u> | <u>Balance at</u> | |
|---|--------------------------------|--|-------------------------------|------------------------------|
| | | | <u>September 30, 2017</u> | <u>December 31, 2016</u> |
| First mortgages secured by: | | | | |
| Rego Park I shopping center (100% cash collateralized) ⁽²⁾ | Mar. 2018 | 0.35% | \$ 78,246 | \$ 78,246 |
| Paramus | Oct. 2018 | 2.90% | 68,000 | 68,000 |
| Rego Park II shopping center ⁽³⁾ | Nov. 2018 | 3.09% | 257,147 | 259,901 |
| 731 Lexington Avenue, retail space ⁽⁴⁾ | Aug. 2022 | 2.63% | 350,000 | 350,000 |
| 731 Lexington Avenue, office space ⁽⁵⁾ | Jun. 2024 | 2.14% | 500,000 | 300,000 |
| Total | | | 1,253,393 | 1,056,147 |
| Deferred debt issuance costs, net of accumulated amortization of \$4,995 and \$6,824 respectively | | | (13,324) | (3,788) |
| | | | <u>\$ 1,240,069</u> | <u>\$ 1,052,359</u> |

- (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%. See page 10 for details of our Rego Park II loan participation.
(4) Interest at LIBOR plus 1.40%.
(5) Interest at LIBOR plus 0.90%.

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

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.

Financial Assets and Liabilities Measured at Fair Value

Financial assets measured at fair value on our consolidated balance sheets as of September 30, 2017 and December 31, 2016, 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 September 30, 2017 and December 31, 2016. There were no financial liabilities measured at fair value as of September 30, 2017 and December 31, 2016.

| | | As of September 30, 2017 | | | |
|------------------------|----|--------------------------|-----------|---------|---------|
| (Amounts in thousands) | | Total | Level 1 | Level 2 | Level 3 |
| Marketable securities | \$ | 29,424 | \$ 29,424 | \$ - | \$ - |

| | | As of December 31, 2016 | | | |
|------------------------|----|-------------------------|-----------|---------|---------|
| (Amounts in thousands) | | Total | Level 1 | Level 2 | Level 3 |
| Marketable securities | \$ | 37,918 | \$ 37,918 | \$ - | \$ - |

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 the Rego Park II loan participation, mortgages payable, and cash equivalents. The fair values of the Rego Park II loan participation and mortgages payable are 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, and are classified as Level 2. Cash equivalents are carried at cost, which approximates fair value due to their short-term maturities and is classified as Level 1. The table below summarizes the carrying amounts and fair value of these financial instruments as of September 30, 2017 and December 31, 2016.

| | | As of September 30, 2017 | | As of December 31, 2016 | |
|--|----|--------------------------|---------------|-------------------------|---------------|
| (Amounts in thousands) | | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | | | | | |
| Rego Park II loan participation | \$ | 199,275 | \$ 199,275 | \$ - | \$ - |
| Cash equivalents | | 246,541 | 246,541 | 256,370 | 256,370 |
| | \$ | 445,816 | \$ 445,816 | \$ 256,370 | \$ 256,370 |
| Liabilities: | | | | | |
| Mortgages payable (excluding deferred debt issuance costs) | \$ | 1,253,393 | \$ 1,241,000 | \$ 1,056,147 | \$ 1,045,000 |

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

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.

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 and the Federal government with no exposure to FNSIC. For NBCR acts, FNSIC is responsible for a \$293,000 deductible and 17% of the balance of a covered loss, and the Federal government is responsible for the remaining 83% 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.

Tenant Matters

On April 4, 2017, Sears closed its 195,000 square foot store it leases from us at our Rego Park I property. Annual revenue is approximately \$10,337,000, under a lease which expires in March of 2021. In its 2016 annual report on Form 10-K, Sears indicated that substantial doubt exists related to its ability to continue as a going concern. There is a straight-line rent receivable of approximately \$4,160,000 and unamortized deferred leasing costs of approximately \$437,000 on our consolidated balance sheet as of September 30, 2017 which we will continue to assess for recoverability.

On September 19, 2017, the bankruptcy court approved the terms of an order stipulation between Le Cirque, a restaurant operator which leases 13,000 square feet at our 731 Lexington Avenue property (approximately \$1,200,000 of annual revenue), and the Company which terminates the lease on January 5, 2018 (original lease expiration was May of 2021). As a result, we began accelerating depreciation and amortization of approximately \$2,780,000 of tenant improvements and deferred leasing costs over the new lease term, of which approximately \$280,000 was recognized in the quarter ended September 30, 2017 and approximately \$2,370,000 and \$130,000 will be recognized in the quarters ending December 31, 2017 and March 31, 2018, respectively.

Rego Park I Litigation

In June 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.

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

11. Commitments and Contingencies – continuedParamus

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 on October 5, 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 \$1,474,000 of standby letters of credit were outstanding as of September 30, 2017.

Other

In October 2015, the New York City Department of Finance (“NYC DOF”) issued a Notice of Determination to us assessing an additional \$22,490,000 of transfer taxes (including interest and penalties as of September 30, 2017) in connection with the sale of Kings Plaza Regional Shopping Center 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. 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 nine months ended September 30, 2017 and 2016.

| (Amounts in thousands, except share and per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-----------|------------------------------------|-----------|
| | 2017 | 2016 | 2017 | 2016 |
| Net income | \$ 20,299 | \$ 21,036 | \$ 62,626 | \$ 64,822 |
| Weighted average shares outstanding – basic and diluted | 5,115,982 | 5,114,701 | 5,115,339 | 5,113,877 |
| Net income per common share – basic and diluted | \$ 3.97 | \$ 4.11 | \$ 12.24 | \$ 12.68 |

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 September 30, 2017, and the related consolidated statements of income and comprehensive income for the three and nine month periods ended September 30, 2017 and 2016, and changes in equity and cash flows for the nine month periods ended September 30, 2017 and 2016. 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, 2016, 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 13, 2017, 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, 2016 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
October 30, 2017

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 expressions 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, 2016. 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 nine months ended September 30, 2017 and 2016. 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 nine months ended September 30, 2017 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, 2016 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 2017.

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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 September 30, 2017 Financial Results Summary

Net income for the quarter ended September 30, 2017 was \$20,299,000, or \$3.97 per diluted share, compared to \$21,036,000, or \$4.11 per diluted share for the quarter ended September 30, 2016. Funds from operations ("FFO") for the quarter ended September 30, 2017 was \$28,598,000, or \$5.59 per diluted share, compared to \$28,949,000, or \$5.66 per diluted share for the quarter ended September 30, 2016.

Nine Months Ended September 30, 2017 Financial Results Summary

Net income for the nine months ended September 30, 2017 was \$62,626,000, or \$12.24 per diluted share, compared to \$64,822,000, or \$12.68 per diluted share for the nine months ended September 30, 2016. FFO for the nine months ended September 30, 2017 was \$86,846,000, or \$16.98 per diluted share, compared to \$90,198,000, or \$17.64 per diluted share for the nine months ended September 30, 2016. Net income and FFO for the nine months ended September 30, 2016 included rental income of \$2,257,000, or \$0.44 per diluted share, resulting from a tenant lease termination at our Rego Park II property in September 2016. Net income for the nine months ended September 30, 2016 also included additional depreciation and amortization of tenant improvements and deferred leasing costs of \$1,077,000, or \$0.21 per diluted share, related to this lease termination.

Square Footage, Occupancy and Leasing Activity

As of September 30, 2017, our portfolio was comprised of seven properties aggregating 2,437,000 square feet and was 99.3% occupied.

Tenant Matters

On April 4, 2017, Sears closed its 195,000 square foot store it leases from us at our Rego Park I property. Annual revenue is approximately \$10,337,000, under a lease which expires in March of 2021. In its 2016 annual report on Form 10-K, Sears indicated that substantial doubt exists related to its ability to continue as a going concern. There is a straight-line rent receivable of approximately \$4,160,000 and unamortized deferred leasing costs of approximately \$437,000 on our consolidated balance sheet as of September 30, 2017 which we will continue to assess for recoverability.

On September 18, 2017, Toys R Us ("Toys"), which leases 47,000 square feet of retail space at our Rego Park II shopping center (\$2,700,000 of annual revenue) filed for Chapter 11 bankruptcy relief. There are \$1,617,000 of unamortized assets on our consolidated balance sheet related to the Toys lease as of September 30, 2017, including tenant improvements, deferred leasing costs and receivables arising from the straight-lining of rent.

On September 19, 2017, the bankruptcy court approved the terms of an order stipulation between Le Cirque, a restaurant operator which leases 13,000 square feet at our 731 Lexington Avenue property (approximately \$1,200,000 of annual revenue), and the Company which terminates the lease on January 5, 2018 (original lease expiration was May of 2021). As a result, we began accelerating depreciation and amortization of approximately \$2,780,000 of tenant improvements and deferred leasing costs over the new lease term, of which approximately \$280,000 was recognized in the quarter ended September 30, 2017 and approximately \$2,370,000 and \$130,000 will be recognized in the quarters ending December 31, 2017 and March 31, 2018, respectively.

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Overview – continued

Rego Park II Loan Participation

On July 28, 2017, we entered into a participation and servicing agreement with the lender on our Rego Park II shopping center loan, which matures on November 30, 2018. We paid \$200,000,000 to participate in the loan and are entitled to interest of LIBOR plus 1.60% (2.84% as of September 30, 2017).

Financing

On June 1, 2017, we completed a \$500,000,000 refinancing of the office portion of 731 Lexington Avenue. The interest-only loan is at LIBOR plus 0.90% and matures in June 2020, with four one-year extension options. In connection therewith, we purchased an interest rate cap with a notional amount of \$500,000,000 that caps LIBOR at a rate of 6.0%. The property was previously encumbered by a \$300,000,000 interest-only mortgage at LIBOR plus 0.95% which was scheduled to mature in March 2021.

Significant Tenant

Bloomberg L.P. (“Bloomberg”) accounted for revenue of \$78,786,000 and \$78,567,000 for the nine months ended September 30, 2017 and 2016, respectively, representing approximately 46% of our total revenues in each period. 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.

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Results of Operations – Three Months Ended September 30, 2017, compared to September 30, 2016

Property Rentals

Property rentals were \$37,970,000 in the quarter ended September 30, 2017, compared to \$37,598,000 in the prior year's quarter, an increase of \$372,000. This increase was primarily due to higher rental income from The Alexander apartment tower, which was placed in service in phases beginning July 2015 and leased up to stabilization in September 2016.

Expense Reimbursements

Tenant expense reimbursements were \$20,124,000 in the quarter ended September 30, 2017, compared to \$19,522,000 in the prior year's quarter, an increase of \$602,000. This increase was primarily due to higher reimbursable real estate taxes and higher reimbursable operating expenses.

Operating Expenses

Operating expenses were \$21,272,000 in the quarter ended September 30, 2017, compared to \$21,714,000 in the prior year's quarter, a decrease of \$442,000. This decrease was primarily due to (i) lower bad debt expense of \$539,000 and (ii) lower marketing expenses for The Alexander apartment tower of \$330,000, partially offset by (iii) higher real estate taxes of \$402,000.

Depreciation and Amortization

Depreciation and amortization was \$8,430,000 in the quarter ended September 30, 2017, compared to \$8,045,000 in the prior year's quarter, an increase of \$385,000. This increase was primarily due to additional depreciation and amortization of tenant improvements and deferred leasing costs related to Le Cirque's lease termination agreement at our 731 Lexington Avenue property in September 2017.

General and Administrative Expenses

General and administrative expenses were \$1,228,000 in the quarter ended September 30, 2017, compared to \$1,225,000 in the prior year's quarter, an increase of \$3,000.

Interest and Other Income, net

Interest and other income, net was \$2,081,000 in the quarter ended September 30, 2017, compared to \$522,000 in the prior year's quarter, an increase of \$1,559,000. This increase was primarily due to higher interest income of \$1,538,000 of which \$899,000 was from higher average interest rates and \$640,000 was from higher average investment balances.

Interest and Debt Expense

Interest and debt expense was \$8,940,000 in the quarter ended September 30, 2017, compared to \$5,615,000 in the prior year's quarter, an increase of \$3,325,000. This increase was primarily due to additional interest expense of (i) \$1,507,000 due to higher average LIBOR, (ii) \$1,198,000 resulting from the refinancing of the office portion of 731 Lexington Avenue on June 1, 2017 for \$500,000,000 at LIBOR plus 0.90% (previously a \$300,000,000 loan at LIBOR plus 0.95%) and (iii) \$642,000 of higher amortization of debt issuance costs.

Income Taxes

Income tax expense was \$6,000 in the quarter ended September 30, 2017, compared to \$7,000 in the prior year's quarter.

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Results of Operations – Nine Months Ended September 30, 2017, compared to September 30, 2016

Property Rentals

Property rentals were \$114,507,000 in the nine months ended September 30, 2017, compared to \$113,129,000 in the prior year's nine months, an increase of \$1,378,000. This increase was primarily due to higher rental income of \$3,763,000 from The Alexander apartment tower, which was placed in service in phases beginning July 2015 and leased up to stabilization in September 2016, partially offset by income of \$2,257,000 in the prior year's nine months resulting from a tenant lease termination at our Rego Park II property in June 2016.

Expense Reimbursements

Tenant expense reimbursements were \$58,006,000 in the nine months ended September 30, 2017, compared to \$56,554,000 in the prior year's nine months, an increase of \$1,452,000. This increase was primarily due to higher reimbursable real estate taxes and higher reimbursable operating expenses.

Operating Expenses

Operating expenses were \$62,937,000 in the nine months ended September 30, 2017, compared to \$60,702,000 in the prior year's nine months, an increase of \$2,235,000. This increase was primarily due to (i) higher real estate taxes of \$2,723,000 and (ii) higher reimbursable operating expenses of \$555,000, partially offset by (iii) lower marketing costs for The Alexander apartment tower of \$1,007,000 and (iv) lower bad debt expense of \$270,000.

Depreciation and Amortization

Depreciation and amortization was \$24,613,000 in the nine months ended September 30, 2017, compared to \$25,745,000 in the prior year's nine months, a decrease of \$1,132,000. This decrease was primarily due to additional depreciation and amortization of tenant improvements and deferred leasing costs of \$1,077,000 in the prior year's nine months related to a tenant lease termination at our Rego Park II property in June 2016.

General and Administrative Expenses

General and administrative expenses were \$4,080,000 in the nine months ended September 30, 2017, compared to \$4,285,000 in the prior year's nine months, a decrease of \$205,000. This decrease was primarily due to lower directors' fees and stock-based compensation expense as a result of having one less member on our Board of Directors than in the prior year's nine months.

Interest and Other Income, net

Interest and other income, net was \$4,105,000 in the nine months ended September 30, 2017, compared to \$2,388,000 in the prior year's nine months, an increase of \$1,717,000. This increase was primarily due to higher interest income of \$2,130,000 of which \$1,530,000 was from higher average interest rates and \$616,000 was from higher average investment balances, partially offset by income of \$367,000 included in the prior year's nine months from a cost reimbursement settlement with a retail tenant at our 731 Lexington Avenue property.

Interest and Debt Expense

Interest and debt expense was \$22,355,000 in the nine months ended September 30, 2017, compared to \$16,476,000 in the prior year's nine months, an increase of \$5,879,000. This increase was primarily due to additional interest expense of (i) \$3,890,000 due to higher average LIBOR, (ii) \$1,479,000 resulting from the refinancing of the office portion of 731 Lexington Avenue on June 1, 2017 for \$500,000,000 at LIBOR plus 0.90% (previously a \$300,000,000 loan at LIBOR plus 0.95%) and (iii) \$511,000 of higher amortization of debt issuance costs.

Income Taxes

Income tax expense was \$7,000 in the nine months ended September 30, 2017, compared to \$41,000 in the prior year's nine 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.

Nine Months Ended September 30, 2017

Cash and cash equivalents and restricted cash were \$364,514,000 as of September 30, 2017, compared to \$374,678,000 as of December 31, 2016, a decrease of \$10,164,000. This decrease resulted from (i) \$202,430,000 of net cash used in investing activities, partially offset by (ii) \$120,056,000 of net cash provided by financing activities and (iii) \$72,210,000 of net cash provided by operating activities.

Net cash used in investing activities of \$202,430,000 was primarily comprised of the Rego Park II loan participation payment of \$200,000,000 and construction in progress and real estate additions of \$3,155,000.

Net cash provided by financing activities of \$120,056,000 was primarily comprised of (i) \$500,000,000 of proceeds from the refinancing of the office portion of 731 Lexington Avenue, partially offset by (ii) debt repayments of \$302,754,000 (primarily the repayment of the former loan on the office portion of 731 Lexington Avenue) and (iii) dividends paid of \$65,218,000.

Net cash provided by operating activities of \$72,210,000 was comprised of (i) net income of \$62,626,000, (ii) adjustments for non-cash items of \$30,666,000 and (iii) the net change in operating assets and liabilities of \$21,082,000. The adjustments for non-cash items were comprised of (i) depreciation and amortization (including amortization of debt issuance costs) of \$27,049,000, (ii) straight-lining of rental income of \$3,223,000 and (iii) stock-based compensation expense of \$394,000.

Liquidity and Capital Resources – continued

Nine Months Ended September 30, 2016

Cash and cash equivalents and restricted cash were \$349,179,000 as of September 30, 2016, compared to \$344,656,000 as of December 31, 2015, an increase of \$4,523,000. This increase resulted from (i) \$81,898,000 of net cash provided by operating activities, partially offset by (ii) \$63,934,000 of net cash used in financing activities and (iii) \$13,441,000 of net cash used in investing activities.

Net cash provided by operating activities of \$81,898,000 was comprised of net income of \$64,822,000, adjustments for non-cash items of \$29,710,000 and the net change in operating assets and liabilities of \$12,634,000. The adjustments for non-cash items were comprised of (i) depreciation and amortization (including amortization of debt issuance costs) of \$27,666,000, (ii) straight-lining of rental income of \$1,594,000 and (iii) stock-based compensation expense of \$450,000.

Net cash used in financing activities of \$63,934,000 was primarily comprised of dividends paid of \$61,363,000.

Net cash used in investing activities of \$13,441,000 was comprised of construction in progress and real estate additions primarily due to The Alexander apartment tower, including the payment of a development fee to Vornado of \$5,784,000.

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 and the Federal government with no exposure to FNSIC. For NBCR acts, FNSIC is responsible for a \$293,000 deductible and 17% of the balance of a covered loss, and the Federal government is responsible for the remaining 83% 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

In June 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 on October 5, 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 \$1,474,000 of standby letters of credit were outstanding as of September 30, 2017.

Other

In October 2015, the New York City Department of Finance (“NYC DOF”) issued a Notice of Determination to us assessing an additional \$22,490,000 of transfer taxes (including interest and penalties as of September 30, 2017) in connection with the sale of Kings Plaza Regional Shopping Center 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.

[Table of Contents](#)**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 Nine Months Ended September 30, 2017 and 2016

FFO for the quarter ended September 30, 2017 was \$28,598,000, or \$5.59 per diluted share, compared to \$28,949,000, or \$5.66 per diluted share for the prior year’s quarter.

FFO for the nine months ended September 30, 2017 was \$86,846,000, or \$16.98 per diluted share, compared to \$90,198,000, or \$17.64 per diluted share for the prior year’s nine months.

The following table reconciles our net income to FFO:

| (Amounts in thousands, except share and per share amounts) | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------------|------------------------------------|------------------|
| | 2017 | 2016 | 2017 | 2016 |
| Net income | \$ 20,299 | \$ 21,036 | \$ 62,626 | \$ 64,822 |
| Depreciation and amortization of real property | 8,299 | 7,913 | 24,220 | 25,376 |
| FFO | <u>\$ 28,598</u> | <u>\$ 28,949</u> | <u>\$ 86,846</u> | <u>\$ 90,198</u> |
| FFO per diluted share | <u>\$ 5.59</u> | <u>\$ 5.66</u> | <u>\$ 16.98</u> | <u>\$ 17.64</u> |
| Weighted average shares used in computing FFO per diluted share | <u>5,115,982</u> | <u>5,114,701</u> | <u>5,115,339</u> | <u>5,113,877</u> |

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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.

| (Amounts in thousands, except per share amounts) | 2017 | | | 2016 | |
|--|--------------------------|--------------------------------------|---|-------------------------|--------------------------------------|
| | September 30, Balance | Weighted Average Interest Rate | Effect of 1% Change in Base Rates | December 31, Balance | Weighted Average Interest Rate |
| Variable Rate | \$ 1,107,147 | 2.52% | \$ 11,071 | \$ 909,901 | 2.08% |
| Fixed Rate | 146,246 | 1.54% | - | 146,246 | 1.54% |
| | <u>\$ 1,253,393</u> | <u>2.40%</u> | <u>\$ 11,071</u> | <u>\$ 1,056,147</u> | <u>2.01%</u> |
| Total effect on diluted earnings per share | | | <u>\$ 2.16</u> | | |

As of September 30, 2017, we have an interest rate cap with a notional amount of \$500,000,000 that caps LIBOR at a rate of 6.0%.

Fair Value of Debt

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. As of September 30, 2017 and December 31, 2016, the estimated fair value of our mortgages payable was \$1,241,000,000 and \$1,045,000,000, 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, 2016.

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.

EXHIBIT INDEX

| <u>Exhibit No.</u> | |
|--------------------|---|
| 10.1 | - Loan Agreement, dated as of June 1, 2017, between 731 Office One LLC, as Borrower, and Deutsche Bank AG, New York Branch and Citigroup Global Markets Realty Corp. collectively, as Lender* |
| 10.2 | - Participation and Servicing Agreement for Loan and Security Agreement, dated July 28, 2017, between Bank of China, New York Branch, individually as Lender, Initial A-1 Holder and as the Agent for the Holders, and Alexander's of Rego Park II Participating Lender LLC, individually as Initial A-2 Holder |
| 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 |

* Incorporated by reference from Form 10-Q filed on July 31, 2017.

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: October 30, 2017

By: /s/ Matthew Iocco

Matthew Iocco

Chief Financial Officer (duly authorized officer and
principal financial and accounting officer)

PARTICIPATION AND SERVICING AGREEMENT

for

LOAN AND SECURITY AGREEMENT

Between

BANK OF CHINA, NEW YORK BRANCH
individually as Lender, Initial A-1 Holder
and as the Agent for the Holders

-and -

ALEXANDER'S OF REGO PARK II PARTICIPATING LENDER LLC
individually as Initial A-2 Holder

Dated: July 28, 2017

PARTICIPATION AND SERVICING AGREEMENT

THIS PARTICIPATION AND SERVICING AGREEMENT (this “**Agreement**”) is dated as of July 28, 2017, by and between BANK OF CHINA, NEW YORK BRANCH, having an address at 7 Bryant Park, 1045 Avenue of the Americas, 13th Floor, New York, New York 10018 (together with its successors and assigns, (“**Lender**,” “**Agent**,” or “**Initial A-1 Holder**”) and ALEXANDER’S OF REGO PARK II PARTICIPATING LENDER LLC, having an address at c/o Alexander’s, Inc., 210 Route 4 East, Paramus, New Jersey 07652 (“**Initial A-2 Holder**,” the Initial A-2 Holder, together with any assignee of any portion of Participation A-2 (as defined below) that is an Affiliate of Initial A-2 Holder, each a “**Related A-2 Holder**,” and together with its non-Affiliated successors and assigns, “**A-2 Holder**,” and Lender and A-2 Holder collectively as holders of interests in the Loan, the “**Holders**”). All terms as used in this Agreement shall, unless otherwise defined in the main body of this Agreement, have the meanings given to such terms in the section herein titled “**Definitions**”.

RECITALS

1. REGO II BORROWER LLC, a Delaware limited liability company (the “**Borrower**”) is the owner of certain real property located at 61-35 Junction Boulevard, Queens, New York, (the “**Mortgaged Property**”).
2. Pursuant to that certain Loan and Security Agreement dated as of November 30, 2011 (the “**Loan Agreement**”), between the Borrower as borrower, and Lender, as lender, Lender made a loan to the Borrower in the original principal amount of Two Hundred Seventy-Five Million and No/100 Dollars (\$275,000,000.00) the “**Mortgage Loan**”).
3. To evidence the Mortgage Loan, the Borrower executed and delivered in favor of Lender a Consolidated, Amended and Restated Promissory Note, dated November 30, 2011 in the original principal amount of Two Hundred Seventy-Five Million and No/100 Dollars (\$275,000,000.00), as same may be amended, supplemented, restated, increased, extended and consolidated, substituted or replaced from time to time, the “**Note**”). To secure the Note, the Borrower granted for the benefit of the Lender, *inter alia*, a Consolidated, Amended and Restated Fee and Leasehold Mortgage, Assignment of Leases and Rents and Security Agreement encumbering the Mortgaged Property (the “**Mortgage**”).
4. To evidence the Mortgage Loan, the Borrower additionally executed and delivered in favor of Lender the documents listed on Exhibit A attached hereto and made a part hereof, each dated as of November 30, 2011, unless otherwise noted (such documents, together with the Loan Agreement, the Note, and the Mortgage, collectively, the “**Loan Documents**”).
5. As of the date hereof, the outstanding principal amount of the Mortgage Loan is \$258,082,394.30.
6. On the date hereof, Lender is selling to Initial A-2 Holder the A-2 Participation in the Mortgage Loan in the original principal amount of \$200,000,000.
7. Capitalized terms used but not otherwise defined herein shall have the

meanings assigned to them in the Loan Agreement.

8. It is the intention and desire of the Holders to enter into this Agreement in order to set forth the rights, benefits, priorities, and obligations of the Holders with respect to the Mortgage Loan and the other mutual understandings of the Holders.

NOW, THEREFORE, in consideration of the mutual promises herein contained and other good and valuable consideration, the receipt and legal sufficiency of which are hereby acknowledged, the parties hereto hereby agree, with respect to the Loan, as follows:

SECTION 1.

DEFINITIONS; PRINCIPLES OF CONSTRUCTION

1.01. Definitions. References to a "Section" or the "recitals" are, unless otherwise specified, to a Section or the recitals of this Agreement. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Loan Agreement in effect as of the date hereof, as the same may be amended in accordance with the Loan Documents and this Agreement. Whenever used in this Agreement, the following terms shall have the respective meanings set forth below unless the context clearly requires otherwise.

"A-1 Holder" means the Holder of Participation A-1.

"A-2 Holder" means the Holder of Participation A-2.

"A-2 Purchase Price" means \$200,000,000.

"Accepted Servicing Practices" those practices and procedures that Agent utilizes for loans that Agent owns for its own account and with a view to the maximization of timely recovery of principal and interest on a net present value basis on the Mortgage Loan.

"Affiliate" shall mean with respect to any specified Person, (a) any other Person controlling or controlled by or under common control with such specified Person (each a "Common Control Party"). For the purposes of this definition, "Control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract, relation to individuals or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agent" shall mean Bank of China, New York Branch, acting as Agent pursuant to this Agreement.

"Agent Fee" shall mean a fee, payable monthly to Agent, at a rate of 0.25% (twenty-five basis points) per annum on the outstanding Mortgage Loan Principal Balance.

"Agreement" shall mean this Participation and Servicing Agreement, the exhibits and schedules hereto and all amendments hereof and supplements hereto, as the same may by hereafter modified, amended or supplemented.

“Appraisal” shall mean an appraisal of the Mortgaged Property conducted in accordance with the standards of the Appraisal Institute by an appraiser that is a member in good standing of the Appraisal Institute and that is certified by such appraiser as having been prepared in accordance with the requirements of the Standards of Professional Practice of the Appraisal Institute with an “MAI” designation and the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation, as well as FIRREA.

“Borrower” shall have the meaning assigned to such term in the recitals.

“Business Day” shall mean any day that is not a Saturday or Sunday, and that is not a legal holiday in New York, New York, or any other city which serves as the principal place of business for Agent or any successor thereto nor a day which banking institutions or savings associations in any of the foregoing cities are closed for business.

“Common Control Party” shall have the meaning given to such term in the definition of “Affiliate.”

“Costs and Expenses” shall mean each of the following costs and expenses, in each case, (a) if the Mortgage Loan is in existence (*i.e.*, has not been foreclosed or a deed -in-lieu accepted) to the extent such costs and expenses are required to be paid or reimbursed by Borrower under the Loan Documents and Borrower fails to timely make such payment or reimbursement pursuant to the Loan Documents and (b) if Lender has acquired the Mortgaged Property, to the extent the costs and expenses would have qualified under (a) if the Mortgage Loan were still in existence: all reasonable and out of pocket costs, fees, expenses, interest, payments, losses, liabilities, judgments and/or causes of action reasonably suffered or actually incurred or reasonably paid by Agent or a Holder pursuant to or in connection with the Mortgage Loan, the Loan Documents (not including any Servicing Fees, Special Servicing Fees, workout fees, liquidation fees or additional servicing compensation unless (except in the case of “regular” periodic Servicing Fees) paid to a Person not an Affiliate of a Holder; but provided that all actual out-of-pocket expenses of Agent in connection with enforcement and workout of the Mortgage Loan shall be Costs and Expenses) the Mortgaged Property, this Agreement or otherwise in connection with the enforcement of the Mortgage Loan in accordance with this Agreement, including, without limitation, reasonable attorneys’ fees and disbursements, taxes, assessments, insurance premiums and other protective advances as more particularly provided in the Loan Documents; provided, however, that neither (i) the costs and expenses relating to the origination of the Mortgage Loan, nor (ii) the day to day customary and usual, ordinary costs of servicing and administration of the Mortgage Loan, other than responding to consent requests from Borrower, shall be “Costs and Expenses” hereunder.

“Holder” shall have the meaning assigned to it in the introductory paragraph of this Agreement.

“Loan Documents” shall mean the Mortgage, the Mortgage Loan Agreement, the Note, and all other documents evidencing or securing the Mortgage Loan, including, without limitation, all guaranties and indemnities, as same may be amended, modified or restated in accordance with this Agreement.

“Material Adverse Effect” shall mean any event, development or circumstance that has or causes a material adverse effect on (a) the business operations, economic performance, assets, financial condition, equity, contingent liabilities, material agreements or results of operations of Borrower, Guarantor and/or the Mortgaged Property, (b) the enforceability or validity of any material Mortgage Loan Document, the perfection or priority of any Lien created under any Mortgage or affecting any material portion of the Mortgaged Property, or the rights and remedies of Agent and/or the Holders under any material Mortgage Loan Document, or (c) the value of, or cash flow from, the Mortgaged Property.

“Mortgage” shall have the meaning assigned to such term in the Recitals.

“Mortgage Loan Agreement” shall have the meaning assigned to it in the recitals.

“Mortgage Loan” shall have the meaning assigned to such term in the recitals.

“Mortgage Loan Principal Balance” shall mean, at any date of determination, the outstanding principal balance of the Mortgage Loan.

“Mortgaged Property” shall have the meaning assigned to such term in the Recitals.

“Non-Exempt Person” shall mean any Person other than a Person who is either (i) a U.S. Person or (ii) has delivered to (or has on file with) Agent for the relevant year such duly-executed form(s) or statement(s) which may, from time to time, be prescribed by law and which, pursuant to applicable provisions of (A) any income tax treaty between the United States and the country of residence of such Person, (B) the Code or (C) any applicable rules or regulations in effect under clauses (A) or (B) above, permit Agent to make such payments free of any obligation or liability for withholding.

“Non-Recoverable Advance” shall mean any portion of a Servicing Advance previously made or proposed to be made which, in the case of a Servicing Advance previously made, has not been previously reimbursed to Agent and which, in the reasonable business judgment of Agent taking into account amounts that may be collected or realized on the Mortgaged Property prior to final liquidation and liquidation proceeds, will not, or, in the case of a proposed Servicing Advance, would not, be ultimately recoverable together with interest thereon at a per annum rate equal to the Prime Rate (compounded monthly on each Remittance Date) from amounts to be deposited with Agent under the terms of this Agreement. The judgment or determination by Agent as the case may be, that it has made a Non-Recoverable Advance or that any proposed Servicing Advance, if made, would constitute a Non-Recoverable Advance shall be evidenced by a certificate of an officer of such party delivered to the Holders, which in each case sets forth such judgment or determination and the procedures and considerations of Agent forming the basis of such determination (including, but not limited to, information selected by the person making such judgment or determination in its good faith discretion, such as related income and expense statements, rent rolls, occupancy status, property inspections, Agent inquiries, third party engineering and environmental reports, and an Appraisal or any updated Appraisal thereof conducted within the past 12 months) and copies of such documents are to be included with the certificate of an officer.

“Non-Related Holder” means each Holder other than a Related A-2 Holder.

“Note” shall have the meaning assigned to such term in the recitals.

“Other Charges” shall mean all amounts referred to as “other charges” in the Loan Agreement.

“Participation” shall have the meaning assigned to such term in the recitals.

“Participation Principal Balance” shall mean, at any time, the then-outstanding principal balance of the applicable Participation, which shall equal the initial principal balance of such Participation, less any payments of principal thereon received by the Holder thereof. The aggregate Participation Principal Balances shall equal the Mortgage Loan Principal Balance.

“Participation Certificate” means the certificate in the form of Exhibit D, evidencing Participation A-1 or Participation A-2.

“Percentage Share” shall mean, with respect to any Holder as of any date, the ratio, expressed as a percentage, that (a) the Participation Principal Balance of the Participation held by such Holder bears to (b) the Mortgage Loan Principal Balances.

“Person” shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Prepayment” shall mean any payment of principal made by the Borrower with respect to the Mortgage Loan which is received in advance of its scheduled maturity date, whether made by reason of a casualty or condemnation, due to the acceleration of the maturity of the Mortgage Loan or otherwise.

“Prepayment Premium” shall mean any prepayment premium, yield maintenance or spread maintenance premium or similar fee required to be paid in connection with a Prepayment.

“Prime Rate” shall mean, for any day, the rate of interest for such day from time to time announced by Citibank, N.A., at its New York City Main Branch as its prime rate (being a base rate for calculating interest on certain loans), each change in any interest rate hereunder based on the Prime Rate to take effect at the time of such change in the prime rate. The Prime Rate is not necessarily the lowest rate for commercial or other types of loans.

“Pro Rata and Pari Passu Basis” shall mean (i) with respect to the Participations, the allocation of any particular payment, collection, cost, expense, liability or other amount among the Participations on a pro rata basis in accordance with the respective unpaid principal balances of the Participations, without any priority of any Participation over any other Participation; and (ii) with respect to the Holders, the allocation of any particular payment, collection, cost, expense, liability or other amount among the Holders on a pro rata basis in accordance with the respective unpaid principal balances of their Participations, without any priority of any Holder over any other Holder.

“Purchase Date” shall mean July 27, 2017.

“Remittance Date” shall have the meaning assigned to it in Section 4.01.

“Servicing Advance” shall mean each of the following costs and expenses, in each case, (a) if the Mortgage Loan is in existence (*i.e.*, has not been foreclosed or a deed -in-lieu accepted) to the extent such costs and expenses are required to be paid or reimbursed by Borrower under the Loan Documents and Borrower fails to timely make such payment or reimbursement and (b) if Lender has acquired the Mortgaged Property, to the extent the costs and expenses would have qualified under (a) if the Mortgage Loan were still in existence: any and all customary and reasonable “out of pocket” costs and expenses incurred by Agent in the performance of its servicing obligations, including, but not limited to, the cost and expenses incurred in connection with (i) the preservation, restoration and protection of the Mortgaged Property which, in the judgment and discretion of such party (exercised in accordance with Accepted Servicing Practices), is necessary to prevent an immediate or material loss to the Holders’ interest in the Mortgaged Property, including costs and expenses necessary to preserve the priority of the Mortgage, (ii) the payment of ground rent, real estate taxes, assessments and other taxes and governmental charges that may be levied or assessed against the Borrower or the Mortgaged Property or revenues therefrom or which become liens on the Mortgaged Property, insurance premiums, and any other amounts necessary to preserve the priority of the lien created by the Mortgage or the value of the Mortgaged Property (to the extent not paid by Borrower), and (iii) any enforcement or judicial proceedings (including, without limitation, foreclosures), and including, but not limited to, court costs, attorneys’ fees and expenses, costs for third party experts, including environmental and engineering consultants.

“Taxes” shall mean any income or other taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature, now or hereafter imposed by any jurisdiction or by any department, agency, state or other political subdivision thereof or therein.

“Transfer” shall have the meaning assigned to such term in Section 8.01.

“Unanimous Consent Decision” shall have the meaning assigned to such term in Section 5.01.

“U.S. Person” shall mean a citizen or resident of the United States, a corporation or partnership (except to the extent provided in applicable Treasury Regulations) created or organized in or under the laws of the United States, any State thereof or the District of Columbia, including any entity treated as a corporation or partnership for federal income tax purposes, or an estate whose income is subject to United States federal income tax regardless of its source, or a trust if a court within the United States is able to exercise primary supervision over the administration of such trust, and one or more United States fiduciaries have the authority to control all substantial decisions of such trust (or, to the extent provided in applicable Treasury Regulations, a trust in existence on August 20, 1996 which is eligible to elect to be treated as a U.S. Person).

1.02. Principles of Construction. All references to sections and schedules are to sections and schedules in or to this Agreement unless otherwise specified. Any reference in this Agreement or in any other Loan Document to any Loan Document shall be deemed to include references to such documents as the same may hereafter be amended, modified, supplemented, extended, replaced and/or restated from time to time (and, in the case of any note or other instrument, to any instrument issued in substitution therefor). Unless otherwise specified, the words “hereof,” “herein” and “hereunder” and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement. Unless otherwise specified, all meanings attributed to defined terms herein shall be equally applicable to both the singular and plural forms of the terms so defined.

SECTION 2.

CREATION OF PARTICIPATIONS

2.01. Purchase and Sale. On the date hereof, on the terms and conditions set forth herein, the Lender created Participation A-1 and Participation A-2, will retain Participation A-1 and sell Participation A-2 to Initial A-2 Holder. On the date hereof, Initial A-2 Holder shall pay for Participation A-2 by wire transfer to Lender of immediately available funds in an amount equal to the A-2 Purchase Price (which purchase shall be deemed effective only upon the Lender’s receipt of such funds). Upon payment of the A-2 Purchase Price, Lender shall deliver (if it has not previously delivered) the A-2 Participation Certificate to the Initial A-2 Holder. Thereafter, each Holder shall be deemed the owner of its respective Participation. No Holder shall transfer its Participation, or any portion thereof, other than in accordance with Article VIII hereof.

2.02. Initial Principal Balances. The parties hereto acknowledge and agree that, as of the date hereof, Participation A-1 has a Participation Principal Balance of \$58,082,394.30 and Participation A-2 has a Participation Principal Balance of \$200,000,000.

2.03. Ranking and Allocations. Each Participation and the right of the applicable Holder to receive payments with respect thereto shall at all times be Pro Rata and Pari Passu with each other in accordance with their respective Percentage Shares, (a) except as specifically provided otherwise in this Agreement and (b) except that the right of any Related A-2 Holder to receive payment shall be subordinate to such right of the other Holder to the extent provided herein. All interest, income, gain, profits and losses due to or incurred by the Holders with respect to the Mortgage Loan shall be apportioned among the Holders in proportion to their Percentage Shares in the Mortgage Loan, in each case to the extent accruing from and after the Purchase Date (a) except as specifically provided otherwise in this Agreement and (b) except that the right of any Related A-2 Holder to receive payment shall be subordinate to such right of the other Holder, to the extent provided herein.

2.04. Rate of Interest on, and Terms of, the Participations. Subject to the provisions of this Agreement, from and after the Purchase Date, each Participation shall entitle the Holder thereof to (a) interest at the Interest Rate (as defined in the Loan Agreement) on its Participation and (b) its Percentage Share of any payments of principal collected on the Mortgage Loan, in

2.05. [Reserved].

SECTION 3.

APPOINTMENT OF AGENT; RESPONSIBILITIES OF AGENT

3.01. Appointment of Agent. At all times from the Purchase Date throughout the term of the Mortgage Loan there shall be an Agent to administer and service (such servicing to include the duties of a “primary” servicer and those of a “special” servicer) the Mortgage Loan on the terms and conditions set forth herein and to take such actions in respect of the collateral for the Mortgage Loan as shall be specified herein and/or in the Loan Documents. The initial Holders hereby appoint Lender as, and Lender hereby accepts such appointment and agrees to act as initial Agent hereunder on the terms and conditions set forth herein. The Agent shall be entitled to a fee (the “**Agent Fee**”) of 0.25% per annum (twenty-five basis points) on the Mortgage Loan Principal Balance immediately following the preceding Remittance Date, payable monthly out of monthly payments on the Mortgage Loan.

3.02. Authority of Agent. Agent shall have such responsibilities as shall be set forth herein and as shall be delegated to Agent from time to time by the Holders pursuant to the terms and conditions of this Agreement. By their execution of this Agreement, the Holders hereby authorize and direct Agent to act on their behalf in connection with the Mortgage Loan and the Loan Documents with respect to all rights and obligations of the originating lender pursuant to the terms of the Mortgage Loan Agreement and other Loan Documents, subject to the limitations set forth in this Agreement. Each of the Holders shall be bound by any acts of Agent taken within the scope of the authority granted to Agent under this Agreement. From and after the Purchase Date, any security granted pursuant to the Mortgages or in any other Loan Document, any hedging arrangements entered into by the Borrower under the terms of the Loan Documents and any and all actions taken by Agent under this Agreement, the Loan Agreement or any other Loan Document shall be for the benefit of the Holders. The Holders hereby agree that Borrower shall be required to and shall deal only with Agent.

3.03. Servicing of the Mortgage Loan

(a) Agent agrees to serve as the initial Mortgage Loan servicer and to perform customary commercial mortgage loan servicing as provided in this Agreement and Accepted Servicing Practices.

(b) The Agent shall distribute (or cause to be distributed) to each Holder, in accordance with the wiring instructions set forth on Exhibit C, on the Remittance Date, all payments due to such Holder under its Participation in accordance with Sections 4.01 and 4.02 hereof, provided that Agent shall be entitled to deduct the Agent Fee then due to it from amounts otherwise distributable to the Holders.

3.04. Workout. Subject to the terms and conditions of this Agreement and the obligation to act in accordance with Accepted Servicing Practices, if Agent, in connection with a workout or proposed workout of the Mortgage Loan, proposes to modify the terms thereof such that (i) the Mortgage Loan Principal Balance is decreased, (ii) the interest rate applicable to the Mortgage Loan is reduced, (iii) payments of interest or principal on the Mortgage Loan are waived, reduced or deferred (other than a deferral of principal resulting solely from the extension of the Maturity Date of the Mortgage Loan by the Agent pursuant to the terms of this Agreement) or (iv) any other adjustment is made to any of the payment terms of the Mortgage Loan (other than any extension of the Maturity Date), such events shall require the consent of each Holder other than Related A-2 Holders. The economic effect of all waivers, reductions or deferrals of amounts due on the Mortgage Loan attributable to such workout shall be allocated to each Participation on a Pro Rata and Pari Passu Basis, and shall be borne by the Holders of each such Participation on a Pro Rata and Pari Passu Basis; provided, however, that in such circumstance any Related A-2 Holder will instead be subordinated to, and will bear such economic effect prior to, any other Holders.

3.05. Servicing Advances; Costs and Expenses.

(a) If Agent determines that a Servicing Advance is reasonably necessary to protect the value or security of the Mortgage Loan or the Mortgaged Property, it shall notify all Holders promptly upon making such determination. Such notice shall identify the purpose of the Servicing Advance, the total amount thereof, and each Holder's Percentage Share of such Servicing Advance. The Related A-2 Holders shall have the option, but not the obligation, to make such Servicing Advance in its entirety, but if Related A-2 Holders elect not to do so, each Non-Related Holder shall, within two (2) Business Days of receipt of such notice, remit its share (based on each Non-Related Holder's Percentage Share relative to the other Non-Related Holders (such Holder's "**Non-Related Percentage Share**") of such Servicing Advance to Agent for application to the Servicing Advance. No Holder shall be required to make a Servicing Advance if Agent determines that such Servicing Advance would be a Non-Recoverable Advance.

(b) If Borrower fails to reimburse in a timely manner any Costs and Expenses incurred by Agent while acting within the scope of the authority granted to it under this Agreement in connection with the Mortgage Loan, the enforcement thereof or the realization of the security therefor, Agent may, at its option (i) withhold the amount thereof from amounts otherwise distributable to any Related A-2 Holder and/or (ii) request reimbursement from any Non-Related Holder of such Holder's Non-Related Percentage Share of such Costs and Expenses. Any portion of such Costs and Expenses paid by or withheld from a Non-Related Holder shall be reimbursable to it out of collections from or on behalf of Borrower allocated to such reimbursement or from amounts otherwise distributable to any Related A-2 Holder, based on each Non-Related Holder's Non-Related Percentage Share.

3.06. Exercise of Remedies by Agent.

(a) Each of the Holders acknowledges that subject to the terms of this Agreement Agent may exercise or refrain from exercising any rights that Agent may have hereunder.

(b) Each Holder agrees that Agent to the extent consistent with the terms of this Agreement, shall have the sole and exclusive authority with respect to the administration of, and exercise of rights and remedies with respect to, the Mortgage Loan, including, without limitation, the sole and exclusive authority (in each case, subject to Accepted Servicing Practices and the terms and conditions set forth in this Agreement, including all consent rights of the Holders) to (i) modify or waive any of the terms of the Loan Documents, (ii) consent to any action or failure to act by the Borrower or any party to the Loan Documents, (iii) [intentionally omitted] (iv) take legal action to enforce or protect the Holders' interests with respect to the Mortgage Loan, (v) refrain from exercising any powers or rights under the Loan Documents, including the right at any time to call or waive any Events of Default, and/or (vi) accelerate or refrain from accelerating the Mortgage Loan or institute any foreclosure action. Except as otherwise expressly provided in this Agreement, no Holder shall have any voting, consent or other rights whatsoever with respect to Agent's administration of, or exercise of its rights and remedies with respect to, the Mortgage Loan and hereby presently and irrevocably assigns and conveys to Agent, such rights.

(c) Agent shall not have any duty to any Holder in connection with the administration of the Mortgage Loan except that in servicing the Mortgage Loan, Agent is required to act in accordance with Accepted Servicing Practices and this Agreement. Each Holder expressly and irrevocably waives for itself and any Person claiming through or under any such Holder any and all rights that it may have under Section 1315 of the New York Real Property Actions and Proceedings Law or the provisions of any similar law that purports to give a junior loan participant the right to initiate any loan enforcement or foreclosure proceedings. Notwithstanding the foregoing, Agent (whether in its capacity as such or as Lender or Holder) shall have no liability to a Related A-2 Holder except as provided in Section 6.01.

3.07. Additional Servicing Matters.

(a) Agent shall administer the Mortgage Loan in a manner consistent with this Agreement, and shall not be liable to any Holder with respect to anything Agent may do or omit to do in relation to the Mortgage Loan, other than as expressly set forth in this Agreement. Without limiting the generality of the foregoing, Agent (i) may consult with legal counsel, accountants and other experts reasonably selected by Agent and may rely on the advice of legal counsel, accountants and other experts (including those retained by the Borrower) and shall not be liable for any action taken or omitted to be taken in good faith by it in accordance with the advice of such counsel, accountants or experts, (ii) may rely upon any notice, consent, certificate, instrument or other written communication or telephone conversation which Agent believes to be genuine and correct or to have been signed, sent or made by the proper Person and shall incur no liability under or in respect of this Agreement by acting upon any such notice, consent, certificate, instrument, writing or telephone conversation, and (iii) makes no warranty or representation to any Holder and shall not be responsible to any Holder for any statements, warranties or representations (whether written or oral) made in or in connection with this Agreement, except the representations and warranties expressly made herein.

(b) In the event that title to the Mortgaged Property is acquired for the benefit of the Holders in foreclosure, by deed in lieu of foreclosure or upon abandonment or reclamation from bankruptcy, the deed or certificate of sale shall be taken in the name of Agent or its

nominee on behalf of the Holders. The Agent shall manage, conserve, protect and operate each such Mortgaged Property for the Holders solely for the purpose of its prompt disposition and sale in accordance with Accepted Servicing Practices.

(c) Agent shall be entitled to enter into any agreement with any independent contractor performing services for it related to its duties and obligations hereunder for indemnification of Agent by such independent contractor, and nothing in this Agreement shall be deemed to limit or modify such indemnification.

(d) Agent shall utilize reasonable efforts, consistent with Accepted Servicing Practices, to obtain an offer to purchase the Mortgaged Property that will maximize the proceeds of disposition to the Holders (as a collective whole) if and when Agent determines that such disposition would be in the best economic interest of the Holders (as a collective whole). No offer to purchase the Mortgaged Property shall, however, be accepted unless all Holders (other than Related A-2 Holders) consent in writing to such sale.

(e) If Agent requests the consent of the Holders (other than Related A-2 Holders) to a sale of all or a portion of the Mortgaged Property for which consent is required pursuant to Section 3.07(d) above, and one or more Holders (other than a Related A-2 Holder) does not consent to such sale (such circumstance, a "**Sale Deadlock**"), then either consenting Holder(s) or the non-consenting Holder(s) (but not a Related A-2 Holder) may initiate a Buy /Sell, as set forth below.

(i) Any of such Holders, excluding a Related A-2 Holder, (the "**Offeror**") may deliver notice (a "**Buy/Sell Notice**") to the other Holders (other than a Related A-2 Holder)(the "**Offerees**") making a buy/sell offer in respect of all, but not less than all, of the right, title and interest held by the Offerees in the applicable Participations or in property acquired as a result of the ownership of the Participations (including direct or indirect interests in the Mortgaged Property or other collateral acquired as a result of ownership of the Participations, and record title to all of the foregoing, collectively "**Mortgage Loan Interests**") for a specified price (the "**Buy/Sell Purchase Price**"), which will be enumerated in such Buy/Sell Notice as a dollar price for each percentage point of ownership in the Mortgage Loan, and shall include unpaid accrued interest to but not including the date of purchase.

(ii) Within ten (10) business days (the "**Decision Period**") after delivery of the Buy/Sell Notice, each Offeree (shall deliver to the Offeror a written notice specifying its irrevocable election either (i) to purchase at the Buy/Sell Purchase Price all, but not less than all, of the Mortgage Loan Interests of the Offeror (and to be the "**Purchasing Holder**"), or (ii) sell at the Buy/Sell Purchase Price all, but not less than all, of its Mortgage Loan Interests to the Offeror (and to be the "**Selling Holder**"). If the Offeree fails to deliver such notice to the Offeror on or before the end of the Decision Period, the Offeree shall be deemed to have elected to be the Selling Holder.

(iii) Any Related A-2 Holder shall be neither an Offeror nor an Offeree, and shall retain its A-2 Participation.

(iv) The closing of the purchase and sale of a Holder's Mortgage Loan Interests pursuant to the Buy/Sell Notice shall take place at 10:00 a.m., New York time, on the date specified by the Purchasing Holder, which date shall be no later than the tenth (10th) business day, and no earlier than the second (2nd) business day, after the end of the Decision Period (or on such other date as the Selling Holder and the Purchasing Holder mutually agree) (the "**Closing Date**"). At the closing, (i) the Selling Holder(s) shall transfer and assign to the Purchasing Holder, without recourse, all of its Mortgage Loan Interests free and clear of all liens, claims, and encumbrances, and (ii) the Purchasing Holder shall pay the Buy/Sell Purchase Price by wire transfer of immediately available funds to the account designated by the Selling Holder. At such closing, the Selling Holder shall execute and deliver such documents and instruments as the Purchasing Holder shall reasonably require in order to effect such transfer; provided that the Selling Holder shall not be required to give any representation or warranty other than as to (i) its ownership of its Mortgage Loan Interests, (ii) lack of liens, claims and encumbrances on its Mortgage Loan Interests, and (iii) authority to transfer its Mortgage Loan Interests. Any such representations and warranties may be assigned by Purchasing Holder in connection with a resale of the purchased Mortgage Loan Interests or any interest therein. Each Holder shall pay its own expenses incurred in connection with a transfer pursuant to this Section 3.07(e).

(v) All interest and other charges accrued on the Selling Holder's Mortgage Loan Interests for the period up to the Closing Date and paid under the related Loan Documents or deemed to have been paid out of income from the Mortgaged Property shall be for the account of the Selling Holder, regardless of whether received by the Closing Date. All interest and other charges accruing after the Closing Date in respect of the Mortgage Loan Interests of the Selling Holder shall be for the account of the Purchasing Holder.

3.08. Actions Upon Actual Knowledge of Certain Matters. Promptly after Agent acquires actual knowledge thereof, Agent will use reasonable efforts to give written notice to each Holder of any material Lien on the Mortgaged Property or any Event of Default under the Loan Agreement or any of the other Loan Documents, including, without, limitation, notice within two (2) Business Days of if a regular monthly debt service payment is not made when due. Agent agrees to consult with the Holders (other than Related A-2 Holders) in respect of any material remedial action to be taken in respect of any such Event of Default but shall not be required to follow any recommendations of the Holders except in the case of Unanimous Consent Decisions.

3.09. [Reserved]

3.10. Certain Actions. If Agent shall have reasonable cause to believe that any legal action or proceeding related to the Mortgaged Property could, if adversely determined, result in a Material Adverse Effect, then, subject to any limitations set forth in the Loan Documents, Agent shall have the right to commence, appear in and defend such legal action or proceeding, and in connection therewith Agent may advance all reasonably necessary Costs and Expenses, for which Agent will be reimbursed in accordance with Section 3.05(b). The parties hereto acknowledge and agree that Agent shall have the right, in its reasonable judgment, to determine

whether a particular matter is “material” as such term is used in this Agreement and the Loan Documents.

3.11. Agent as Holder. With respect to Agent’s ownership interest in the Mortgage Loan and the Loan Documents as A-1 Holder, Agent in its capacity as A-1 Holder shall have the rights and powers of a Holder under this Agreement and the Loan Documents as set forth herein and therein and may exercise the same as though it were not Agent hereunder. Agent and its Affiliates may generally engage in any kind of business with Borrower, any of its Affiliates and/or subsidiaries and any Person who may do business with or own securities of Borrower, any of its Affiliates and/or subsidiaries, all as if the initial Holder were not Agent and without any duty to account therefor to the other Holders.

3.12. Change of Agent. Lender may not resign as Agent except (i) with the consent of all Holders (if any) that are not Related A-2 Holders (unless such resignation is required by law or Lender’s institutional policy, in which case the successor Agent will be appointed by the Non-Related A-2 Holders) or (ii) by assignment of the rights and obligations of Agent in connection with the assignment of all or a portion of Participation A-1, in which case the successor Agent will be appointed by such assignee. Upon appointment of a successor Agent in accordance with (i) or (ii) above, such successor agent shall succeed to the rights, power and duties of the “Agent” and the term “Agent” shall mean such successor agent effective upon its appointment, and the former Agent’s rights, power and duties as Agent shall be terminated, without any other or further act or deed on the part of such former Agent (except that the resigning or assigning Agent shall deliver any collateral for the Mortgage Loan then in its possession to the successor Agent). The indemnity given any retiring Agent pursuant to this Agreement shall survive any resignation or assignment hereunder. After any retiring Agent’s resignation or assignment hereunder as Agent, the provisions of this Agreement shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Agent. No Related A-2 Holder shall act as Agent.

SECTION 4.

COLLECTIONS; COLLECTION ACCOUNTS; PAYMENTS

4.01. Distributions.

(a) Agent shall use reasonable efforts, consistent with Accepted Servicing Practices, to collect all payments called for under the terms and provisions of the Mortgage Loan. Consistent with the foregoing, Agent may, in its discretion, waive any late payment charge or Default Interest, or both, in connection with any delinquent monthly debt service payment or any other Event of Default.

(b) All amounts tendered by the Borrower or otherwise available for payment on the Mortgage Loan shall be applied and distributed by Agent as set forth in this Section 4.01 (and payments shall be made at such times as are set forth herein). Payment shall first be made to Agent up to the amount of any unreimbursed Costs and Expenses paid by Agent with respect to the Mortgage Loan or the Mortgaged Property pursuant to this Agreement. Any amounts paid by Borrower with respect to which Servicing Advances have been made, and any Default Interest, late payment charges, or other amounts paid by Borrower with as a result of its failure to

comply with any term of the Mortgage Loan Agreements, shall be applied to repay the Agent or the Holders, as applicable, for any unreimbursed Servicing Advances and Costs and Expenses; provided, however, that if the amount reimbursed by Borrower is insufficient to repay the Servicing Advances in full, then reimbursement to any Related A-2 Holder shall be subordinated to repayment of other Holders.

(c) Agent shall make commercially reasonable efforts to collect all amounts due on the Mortgage Loan and to remit to each Holder its respective Percentage Share of such amounts (net of any expenses owed by the applicable Holder), each pursuant to the wire instructions provided by each Holder on Exhibit C hereto or in such other manner as is acceptable to each Holder; provided that any designated account is maintained at a commercial bank located in the United States of America. Each payment interest and/or principal received from or on behalf of Borrower shall be distributed to the Holders no later than the Business Day following receipt thereof by Agent (each, a “**Remittance Date**”).

4.02. Priority. Unless an Event of Default shall have occurred and be continuing on the Mortgage Loan, payments of interest, principal, and other amounts due under the Mortgage Loan shall be distributed among Holders on a Pro Rata and Pari Passu Basis, and no portion of any Participation shall have priority or preference over any portion of any other Participation or security therefor, except as provided in this Agreement. If an Event of Default shall have occurred and be continuing on the Mortgage Loan, amounts available for distribution thereafter, including the net proceeds of the collateral securing the Mortgage Loan, the net proceeds of casualty and title insurance policies and awards from condemnation shall be applied to the Participations, other than those held by Related A-2 Holders, on a Pro Rata and Pari Passu Basis and any remainder shall be distributed pro rata to the Related A-2 Holders. If Agent or any nominee thereof acquires title to the Mortgaged Property, then all amounts derived from the operation and disposition of the Mortgaged Property shall be allocable among the Holders as set forth in the immediately preceding sentence. Notwithstanding the foregoing, the rights of each Holder to distributions of any nature with respect to its Participation shall be subject to the rights of the Agent to payments and reimbursements pursuant to and in accordance with the terms of this Agreement. Amounts applied to any particular Participation or allocated to any particular Holder in accordance with this Article IV will be applied to interest, principal and other amounts due in respect of the Mortgage Loan in accordance with the Loan Documents and this Agreement.

4.03. Return of Funds. If Agent holding or having distributed any amount received or collected in respect of the Mortgage Loan determines, or a court of competent jurisdiction orders, at any time that any amount received or collected in respect of the Mortgage Loan must, pursuant to any insolvency, bankruptcy, fraudulent conveyance, preference or similar law, be returned to the Borrower or paid to any Holder or any other Person, then, notwithstanding any other provision of this Agreement, Agent shall not be required to distribute any portion thereof to any Holder and any such Holder shall promptly on demand repay to Agent the portion thereof which shall have been theretofore distributed to the related Holder, together with interest thereon at such rate, if any, as Agent shall have been required to pay to the Borrower, the Holders or such other Person with respect thereto. Each Holder agrees that if at any time it shall receive from any sources whatsoever any payment on account of the Mortgage Loan in excess of its distributable share thereof, it will promptly remit such excess to the Agent. The Agent shall have

the right to offset any amounts due hereunder from any Holder with respect to the Mortgage Loan against any future payments due to such Holder under the Mortgage Loan, provided, that the obligations of each Holder under this Section 4.03 are separate and distinct obligations from one another. The obligations of each Holder under this Section 4.03 constitute absolute, unconditional and continuing obligations.

SECTION 5.

VOTING; UNANIMOUS CONSENT

5.01. Unanimous Consent. Agent shall obtain the written consent of each Holder (other than a Related A-2 Holder), prior to taking any of the following actions (each, a “**Unanimous Consent Decision**”):

(a) any modification or waiver of a monetary term of the Mortgage Loan (except that Agent may waive any or all default interest and/or late fees in its sole discretion);

(b) any modification or waiver of a material non-monetary term of the Mortgage Loan;

(c) any modification or waiver that would result in (i) the extension (other than (A) in accordance with the Loan Documents or (B) for a period of no more than thirty (30) days) or acceleration of the Maturity Date, (ii) a reduction in the interest rate or the monthly debt service payment or Prepayment Premium payable on the Mortgage Loan or a loss of the right to receive any such payment of principal or interest (including, without limitation, any accrued interest) or any fee (other than one month’s late charge), (iii) a deferral or forgiveness of interest on or principal of the Mortgage Loan, or (iv) a discounted pay-off of the Mortgage Loan, or (v) an increase or reduction in the principal amount of the Mortgage Loan (other than an increase as a result of Servicing Advances);

(d) any waiver of an Event of Default;

(e) except as provided in Section 5.03 below, to accelerate the Maturity Date, commence foreclosure proceedings, accept the conveyance of title to the Mortgaged Property in lieu of foreclosure or otherwise, commence any proceedings to collect any amounts owing or claimed to be owing under any guaranty, appoint or request the appointment of a receiver for the Mortgaged Property, collect rents from the Mortgaged Property, take possession of the Mortgaged Property or otherwise exercise any enforcement remedies;

(f) any release of the Borrower or any guarantor from liability with respect to the Mortgage Loan or any modification to, waiver of any provision of, or release of, any guaranty or indemnity agreement;

(g) any substitution or release of collateral for the Mortgage Loan, except as permitted by the Loan Documents without Holders’ consent;

(h) any modification to the number or percentage of Holders required to make any determinations or receive any rights hereunder;

(i) subordination of the Liens created by the Loan Documents to any other liens securing indebtedness of Borrower or otherwise; and

(j) consent to any senior or subordinate financing and any loan that may replace it;

(k) any waiver of or determination not to enforce a “due-on-sale” or “due-on-encumbrance” clause or any other restriction on the sale or transfer of the Mortgaged Property or any portion thereof (but not any sale or transfer of any REO Property) or on any transfer of any direct or indirect ownership interest in the Mortgage Loan Borrower;

(l) the voting on any plan of reorganization, restructuring or similar plan in the bankruptcy of the Mortgage Loan Borrower; and

(m) any other matter for which the approval or consent of the A-2 Holder is required hereunder, including, without limitation, the matters described in Section 3.07(d) hereof.

5.02. Action Notice.

(a) Prior to taking any action or making any decision with respect to a Unanimous Consent Decision, Agent shall notify each Holder entitled to consent to such decision in writing of the proposed action (such notice, an “**Action Notice**”). If the Holder fails to notify the Agent of its approval or disapproval of any such proposed action within ten (10) Business Days after delivery to the Holder by Agent of an Action Notice (which notice shall contain a legend, in conspicuous boldface type, substantially similar to the following: “**THIS IS A REQUEST FOR ACTION APPROVAL. IF THE HOLDER FAILS TO APPROVE OR DISAPPROVE THE ENCLOSED ACTION WITHIN TEN (10) BUSINESS DAYS, SUCH ACTION MAY BE DEEMED APPROVED.**”), then upon the expiration of such ten (10) Business Day period, Agent shall contact the Holder by telephone or email at the notice address and, if no response to such telephone call or email is received within one (1) Business Day after such contact, such action by the Agent shall be deemed to have been approved by the Holder.

(b) In addition, unless there is at such time no Holder entitled to consent to the proposed Unanimous Consent Decision (other than A-1 Holder, and assuming that no portion of Participation A-1 has been transferred), Agent shall prepare a summary of such proposed action and an analysis of whether or not such action is reasonably likely to produce a greater recovery on a present value basis than not taking such action, setting forth the basis on which Agent made such determination, and shall provide to each Holder copies of such summary and other material documents and items reasonably necessary to make such determination by hard copy or electronic means on a timely basis, but in any event concurrently with, or prior to, the delivery of the Action Notice pursuant to Section 5.02(a).

5.03. Enforcement. If an Event of Default shall occur and be continuing, and if at such time there are Holders of Participations other than Agent and Related A-2 Holders, Agent shall promptly prepare a summary of its proposed action in respect of such Event of Default and an analysis of whether or not such action is reasonably likely to produce a greater recovery on a present value basis than not taking such action, setting forth the basis on which Agent made such

determination, and shall provide to each Holder (other than any Related A-2 Holder) copies of such summary by hard copy or electronic means on a timely basis. If any such proposed action is disapproved by the any Holder (other than any Related A-2 Holder), Agent shall propose an alternate action (based on any counter-proposals received from the dissenting Holder or based on any alternate course of action that Agent may deem appropriate) until the approval of the other Holders (other than any Related A-2 Holder) is obtained; provided that if Agent and the Holders (other than any Related A-2 Holder) do not agree on a proposed course of action with respect to any Event of Default within the earlier of (i) thirty (30) days after the date on which Agent first proposed a foreclosure or other action pursuant to this Section 5.03 and (ii) ninety (90) days after the occurrence of such Event of Default, then Agent shall commence, prosecute and consummate a foreclosure action under the Loan Documents; provided that Agent and the other Holders (other than any Related A-2 Holder) may at any time agree on a different course of action.

5.04. Disputes.

(a) Notwithstanding anything herein to the contrary, no advice, direction or objection from or by the Holders or any Holder, as contemplated by Section 5.01, may (and Agent shall ignore and act without regard to any such advice, direction or objection that Agent has determined, in its reasonable, good faith judgment, will) require or cause Agent to take any action or refrain from taking any action if taking or not taking such action, respectively, would violate any law of any applicable jurisdiction or violate any provisions of this Agreement (in the latter case, unless all parties, other than any Related A-2 Holder, agree to waive such provision).

(b) Without limiting the obligations of Agent hereunder, no Holder shall owe any fiduciary duty to Agent or any other Holder. The Holders will not have any liability to any non-consenting Holder (or non-voting Holder) for any action taken, or for refraining from the taking of any action pursuant to this Agreement or the giving of any consent or for errors in judgment. By its acceptance of a Participation, each Holder will be deemed to have confirmed its understanding that (i) any Holders entitled to vote may vote in favor of, or refrain from voting in favor of, actions that favor the interests of such Holders or its Affiliates over the other Holders, (ii) a Holder may have special relationships and interests that conflict with the interest of the other Holders and each Holder will be deemed to have agreed to take no action against another Holder or any of its officers, directors, employees, principals or agents as a result of such a special relationships or conflicts, (iii) no Holder shall be liable by reason of its having acted or refrained from acting solely in its interest or in the interest of its Affiliates and (iv) no Holder shall be liable by reason of its having acted or refrained from acting solely in the interests of the related Holder or its Affiliates.

SECTION 6.

LIMITATION OF LIABILITY; INDEMNIFICATION

6.01. Limitation of Liability of Agent. Agent, whether in such capacity or as Lender or Holder of Participation A-1, shall not have any liability to any Holder except with respect to losses actually suffered due to its (i) gross negligence, (ii) willful misconduct, (iii) failure to distribute to such Holder amounts required to be distributed to it under this Agreement and (iv) breach of any of its representations and warranties set forth in Section 7.01 (**Excepted**

Matters”). Each Holder acknowledges that, subject to the terms of this Agreement, Agent has the rights set forth in this Agreement as rights of Agent, as Lender and A-1 Holder and may exercise, or omit to exercise, any rights that it may have under this Agreement in a manner that may be adverse to the interests of the other Holders, so long as such actions, if taken as Agent, are in accordance with Accepted Servicing Practices and the terms of this Agreement. Notwithstanding the foregoing, however, Agent shall have no liability to any Related A-2 Holder other than for Excepted Matters (iii) and (iv).

6.02. Indemnification of Agent by Holders. Each Holder severally agrees to indemnify Agent (to the extent not promptly reimbursed by Borrower) from and against such Holder’s Percentage Share of any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever that may be imposed on, incurred by, or asserted against Agent in any way relating to or arising out of the Loan Documents or any action taken or omitted by Agent under the Loan Documents; provided that no Holder shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from any of the Excepted Matters, as established by a final, non appealable judgment by a court of competent jurisdiction, provided, however, that Agent shall have no liability to any Related A-2 Holder for any decision, action or failure to act other than a failure to distribute to such Related A-2 Holder amounts required hereby to be distributed to it. Without prejudice to the survival of any other agreement of any Holder hereunder, the agreement and obligations of each Holder contained in this Section 6.02 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the other Loan Documents.

SECTION 7.

REPRESENTATIONS AND WARRANTIES

7.01. Representations of Lender. Lender shall be liable to the A-2 Holder for its representations and warranties pursuant to this Section 7.01 notwithstanding any other limitations on its liability in this Agreement. Lender, as originating lender, Agent, and Initial A-1 Holder, represents and warrants to Initial A-2 Holder that the execution, delivery and performance of this Agreement is within its corporate powers, has been duly authorized by all necessary corporate action, and does not contravene Lender’s charter or any law or contractual restriction binding upon Lender, and that this Agreement is the legal, valid and binding obligation of Lender enforceable against the Lender in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors’ rights generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), and except that the enforcement of rights with respect to indemnification and contribution obligations may be limited by applicable law. Lender further represents and warrants to each initial Holder, that:

- (a) Lender is duly organized, validly existing and in good standing under the laws of all jurisdictions where so required to be.

(b) Immediately prior to the execution and delivery of this Agreement, Lender was the sole legal owner and holder of the Mortgage Loan, free and clear of any lien, pledge, hypothecation, encumbrance or other adverse interest in the Mortgage Loan.

(c) Lender has the right under its organizational documents and applicable law without the consent of any third party to enter into this Agreement and to sell the A-2 Participation to the Initial A-2 Holder.

(d) Lender has not dealt with any broker, investment banker, agent or other person, other than Initial A-2 Holder and its Affiliates, that may be entitled to any commission or compensation in connection with the consummation of any of the transactions contemplated hereby.

(e) Exhibit B attached hereto accurately sets forth, as of the date hereof, the outstanding balance of principal and accrued interest of the Mortgage Loan and each Participation, and Exhibit E sets forth, as of the date hereof, the holder and contact information for Lender / Initial A-1 Holder.

7.02. Representations of Initial A-2 Holder. The Initial A-2 Holder, as of the date hereof, hereby represents and warrants to, and covenants with Lender, as originating lender, Agent, and Initial A-1 Holder as to itself only, that:

(a) It is duly organized, validly existing and in good standing under the laws of the State of Delaware.

(b) The execution and delivery of this Agreement by Initial A-2 Holder, and performance of, and compliance with, the terms of this Agreement by Initial A-2 Holder, will not violate its organizational documents or constitute a default (or an event which, with notice or lapse of time, or both, would constitute a default) under, or result in the breach of, any material agreement or other instrument to which it is a party or that is applicable to it or any of its assets, in each case which materially and adversely affect its ability to carry out the transactions contemplated by this Agreement.

(c) A-2 Holder has the right under its organizational documents and applicable law without the consent of any third party to enter into this Agreement and to purchase the A-2 Participation.

(d) This Agreement is the legal, valid and binding obligation of A-2 Holder enforceable against A-2 Holder in accordance with its terms, except as such enforcement may be limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the enforcement of creditors' rights generally, and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), and except that the enforcement of rights with respect to indemnification and contribution obligations may be limited by applicable law.

(e) A-2 Holder is purchasing the A-2 Participation for its own account.

(f) A-2 Holder has not dealt with any broker, investment banker, agent or other person, other than Lender, Agent and their Affiliates, that may be entitled to any commission or compensation in connection with the consummation of any of the transactions contemplated hereby.

7.03. Independent Analyses of the Initial Holders. Subject to the provisions of Sections 7.01 and 7.02, each Holder acknowledges that it has, independently and without reliance upon Lender, the Agent or any of their Affiliates and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to purchase the related Participation. Except as expressly provided in this Agreement, each Holder hereby acknowledges that none of Lender, Agent or any Holder, subject to the representations and warranties set forth in this Agreement, shall have any responsibility for (i) the collectability of the Mortgage Loan, (ii) the validity, enforceability or legal effect of any of the Loan Documents or the title insurance policy or policies or any survey furnished to Lender in connection with the origination of the Mortgage Loan, (iii) the validity, sufficiency or effectiveness of the lien created or to be created by the Loan Documents, or (iv) the financial condition of the Borrower.

SECTION 8.

TRANSFERS

8.01. Transfer of Participations.

(a) No Holder may sell, assign, transfer, pledge, syndicate, hypothecate, contribute, encumber, subparticipate or otherwise dispose of (each, a “**Transfer**”) any interest in its Participation except in accordance with the terms of this Agreement. Any assignee of an interest (an “**Assignee**”), as a condition to such Transfer, shall assume all of the obligations of the transferring Holder pursuant to this Agreement and the Loan Documents, and shall make the representations and warranties made by the initial Holder of such Participation pursuant to this Agreement, each with respect to the Percentage Share that it is purchasing.

(b) Lender shall only transfer its interest hereunder as permitted pursuant to Article 11 of the Loan Agreement. A-2 Holder shall not transfer its interest hereunder without the consent of Agent, which consent shall not be unreasonably withheld or delayed.

(c) Notwithstanding the rights to Transfer contained herein, no Related A-2 Holder shall have any right to vote on or consent to any issue for which a voting, consent, or similar right is otherwise provided hereunder.

8.02. Certain Rights and Restrictions.

(a) Notwithstanding Section 8.01, each of the Holders agrees that each Transfer to be made by such Holder is subject to the following restrictions: (i) all such Transfers shall be made upon prior written notice to Agent and the other Holders, and (ii) the transferor and transferee shall execute an assignment and assumption agreement whereby such transferee is assigned and assumes all or a ratable portion, as the case may be, of the obligations of the transferring Holder hereunder with respect to its Participation from and after the date of such assignment (or, in the case of a pledge, collateral assignment or other encumbrance of a

Participation, solely as security for a loan to the related Holder, made by a third-party, whereby such Holder remains fully liable under this Agreement, such third party executes an agreement that such Holder shall be bound by the terms and provisions of this Agreement and the obligations of the related Holder hereunder on and after the date on which such Holder succeeds to the rights of the related Holder by foreclosure or otherwise).

(b) Upon the consummation of a Transfer by way of assignment of 100% of its Percentage Share of Participation, the transferee shall be a Holder with respect to the applicable Participation for all purposes under this Agreement with all of the rights, interests and obligations related thereto and the transferring Person shall be released from all liability arising under this Agreement with respect to the related Participation (or the portion thereof that was the subject of such Transfer), arising after the effective date of such Transfer.

(c) If a Holder Transfers by assignment less than 100% of its Percentage Share in a Participation, then the transferee shall be a Holder with respect to the applicable Participation for all purposes under this Agreement with all of the rights, interests and obligations related thereto except that no transferee that is a Related A-2 Holder shall have any right to vote on any decision, including any Unanimous Consent Decision or any other right or priority that, pursuant to this Agreement, is not granted to a Related A-2 Holder.

SECTION 9.

MISCELLANEOUS

9.01. No Creation of a Partnership or Exclusive Purchase Right. Nothing contained in this Agreement, and no action taken pursuant hereto, shall be deemed to constitute the arrangement between Agent and the Holders of a partnership, association, joint venture or other entity. None of the Holders shall have any obligation whatsoever to offer to any other Holder the opportunity to purchase notes or participation interests relating to any future loans originated by such Holder or any of its Affiliates, and if such Holder chooses to offer to any other Holder the opportunity to purchase notes or any participation interests in any future mortgage loans originated by such Holder or its Affiliates, such offer shall be at such purchase price and interest rate as such Holder chooses, in its sole and absolute discretion. No Holder shall have any obligation whatsoever to purchase from any other Holder any notes or participation interests in any future loans originated by any other Holder or any of its Affiliates.

9.02. Not a Security. No Participation shall be deemed to be a security within the meaning of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

9.03. Other Business Activities of Agent and Holders. Agent and each Holder acknowledge that Agent and each other Holder, respectively, may make loans or otherwise extend credit to, and generally engage in any kind of business with, any Borrower Related Party, and receive payments on such other loans or extensions of credit to any Borrower Related Party and otherwise act with respect thereto freely and without accountability in the same manner as if this Agreement and the transactions contemplated hereby were not in effect.

9.04. No Pledge or Loan. This Agreement shall not be deemed to represent a pledge of any interest in the Mortgage Loan by Lender to any other Holder, or a loan from any Holder to Lender. If any such property or the proceeds thereof shall be applied in reduction of the Mortgage Loan Principal Balance, then each Holder shall be entitled to receive its share of such application in accordance with the terms of this Agreement.

9.05. Governing Law; Waiver of Jury Trial. THIS AGREEMENT AND THE RESPECTIVE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CHOICE OF LAW RULES THEREOF OTHER THAN THE PROVISIONS OF SECTION 5-1401 AND 5-1402 OF THE NEW YORK GENERAL OBLIGATIONS LAW SHALL APPLY TO THIS GUARANTEE. EACH OF THE PARTIES HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT.

9.06. Modifications. This Agreement shall not be modified, cancelled or terminated except by an instrument in writing signed by the parties hereto. The party seeking modification of this Agreement shall be solely responsible for any and all reasonable and customary expenses that may arise in order to modify this Agreement.

9.07. Successors and Assigns; Third Party Beneficiaries. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns; provided, that no successors or assigns of Lender shall have any liability for a breach of representation or warranty set forth in this Agreement. None of the provisions of this Agreement shall be for the benefit of or enforceable by any Person not a party hereto.

9.08. Counterparts. This Agreement may be executed in any number of counterparts and all of such counterparts shall together constitute one and the same instrument.

9.09. Captions. The titles and headings of the paragraphs of this Agreement have been inserted for convenience of reference only and are not intended to summarize or otherwise describe the subject matter of the paragraphs and shall not be given any consideration in the construction of this Agreement.

9.10. Notices. All notices required hereunder shall be given by (i) telephone (confirmed in writing) or shall be in writing and personally delivered, (ii) sent by facsimile transmission or electronic mail if the sender on the same day sends a confirming copy of such notice by reputable overnight delivery service (charges prepaid), (iii) reputable overnight delivery service (charges prepaid) or (iv) certified United States mail, postage prepaid return receipt requested, and addressed to the respective parties at their addresses set forth on Exhibit E hereto, or at such other address as any party shall hereafter inform the other party by written notice given as aforesaid. All written notices so given shall be deemed effective upon receipt or, if mailed, upon the earlier to occur of receipt or the expiration of the fourth (4th) day following the date of mailing.

9.11. Reports to the Holders. Agent shall provide to each Holder, other than a Related A-2 Holder (a) a summary of the current status of principal and interest payments on the Mortgage Loan, (b) copies of the Borrower's current financial statements, to the extent in its possession, (c) copies of all reports, statements, certificates, budgets and other information delivered by the Borrower under the Loan Documents, (d) current information, if any, as to the value of the Mortgaged Property, to the extent in its possession, (e) agreements that govern the administration of the Mortgage Loan, (f) copies of any default or acceleration notices sent to the Borrower with respect to the Mortgage Loan and all material correspondence related thereto, (g) notices delivered to Agent by the Borrower, and (h) other information with respect to the Borrower or the Mortgage Loan, as may be reasonably requested by any such Holder, to the extent in the Agent's possession or reasonably obtainable, in each case at the sole cost and expense of the requesting Holder (with respect to all third party out-of-pocket and the reasonable administrative and photocopying costs).

9.12. Custody of Loan Documents. The originals of all of the Loan Documents will be held by Agent on behalf of all of the Holders.

9.13. Registration of Transfers. Agent shall maintain a register on which it will record the names and addresses of, and wire transfer instructions for, the Holders from time to time, to the extent such information is provided in writing to it by the Holders. Any transfer of a Participation hereunder shall be recorded on such register.

9.14. Termination. This Agreement and the respective obligations and responsibilities under this Agreement of the parties hereto shall terminate upon (a) mutual agreement by the parties hereto, evidenced in writing; (b) thirty (30) days after all Participations are paid in full; or (c) payment (or provision for payment) to the Holders of all amounts held by or on behalf of Agent, as applicable, to be so paid on the last Remittance Date following final payment or other liquidation (or any advance with respect thereto) of the Mortgage Loan or the Mortgaged Property; provided, however, that in no event shall the arrangement created hereby continue beyond the expiration of 21 years from the death of the last survivor of the descendants of Joseph P. Kennedy, the late Ambassador of the United States to the Court of St. James, living on the date hereof.

9.15. Withholding Taxes.

(a) If Agent or the Borrower shall be required by law to deduct and withhold Taxes from interest, fees or other amounts payable to any Holder with respect to the Mortgage Loan as a result of such Holder constituting a Non-Exempt Person, Agent shall be entitled to do so with respect to such Holder's interest in such payment (all withheld amounts being deemed paid to such Holder), provided that Agent shall furnish any such Holder with a statement setting forth the amount of Taxes withheld, the applicable rate and other information which may reasonably be requested for purposes of assisting such Holder to seek any allowable credits or deductions for the Taxes so withheld in each jurisdiction in which such Holder is subject to tax.

(b) Each other Holder shall and hereby agrees to indemnify Agent against and hold Agent harmless from and against any Taxes, interest, penalties and attorneys' fees and disbursements arising or resulting from any failure of Agent to withhold Taxes from payment

made to any Holder in reliance upon any representation, certificate, statement, document or instrument made or provided by such Holder to Agent in connection with the obligation of Agent to withhold Taxes from payments made to such Holder, it being expressly understood and agreed that (i) Agent shall be absolutely and unconditionally entitled to accept any such representation, certificate, statement, document or instrument as being true and correct in all respects and to fully rely thereon without any obligation or responsibility to investigate or to make any inquiries with respect to the accuracy, veracity, correctness or validity of the same and (ii) any other Holder shall, upon request of Agent and at its sole cost and expense, defend any claim or action relating to the foregoing indemnification using counsel reasonably satisfactory to Agent.

(c) Each Holder represents to Agent (for the benefit of the Borrower) that it is not a Non-Exempt Person and that neither Agent nor the Borrower is obligated under applicable law to withhold Taxes on sums paid to it with respect to the Mortgage Loan or otherwise pursuant to this Agreement. Contemporaneously with the execution of this Agreement and from time to time as necessary during the term of this Agreement, each other Holder shall deliver to Agent, evidence satisfactory to Agent substantiating that it is not a Non-Exempt Person and that Agent is not obligated under applicable law to withhold Taxes on sums paid to it with respect to the Mortgage Loan or otherwise under this Agreement. Without limiting the effect of the foregoing, (a) if any other Holder is created or organized under the laws of the United States, any state thereof or the District of Columbia, it shall satisfy the requirements of the preceding sentence by furnishing to Agent an Internal Revenue Service Form W-9 and (b) if such Holder is not created or organized under the laws of the United States, any state thereof or the District of Columbia, and if the payment of interest or other amounts by the Borrower is treated for United States income tax purposes as derived in whole or part from sources within the United States, such other Holder shall satisfy the requirements of the preceding sentence by furnishing to Agent Internal Revenue Service Form W-8ECI or Form W-8BEN, or successor forms, as may be required from time to time, duly executed by such other Holder, as evidence of such other Holder's exemption from the withholding of United States tax with respect thereto. Agent shall not be obligated to make any payment hereunder to any Holder in respect of its Participation or otherwise until such other Holder shall have furnished to Agent the requested forms, certificates, statements or documents.

[SIGNATURES APPEAR ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

ORIGINATING LENDER, AGENT AND A-1 HOLDER:

BANK OF CHINA, NEW YORK BRANCH

By: /s/ Raymond L. Qiao

Name: Raymond L. Qiao

Title: Chief Lending Officer

Signatures continue on following page

INITIAL A-2 HOLDER:

**ALEXANDER'S OF REGO PARK II
PARTICIPATING LENDER LLC**

By: Alexander's Inc., its sole member

By: /s/ Alan J. Rice

Name: Alan J. Rice

Title: Authorized Signatory

EXHIBIT A

Original Loan Documents

1. Loan and Security Agreement
2. Consolidated, Amended and Restated Promissory Note
3. Consolidated, Amended and Restated Mortgage Assignment of Leases and Rents and Security Agreement
4. Section 255 Affidavit (Mortgage)
5. Assignment of Leases and Rents
6. Section 255 Affidavit (ALR)
7. Blocked Account Control Agreement
8. Cash Management Agreement
9. Guaranty of Recourse Carveouts
10. Environmental Indemnity Agreement
11. Assignment, Consent and Subordination of Management Agreement
12. Assignment of Contracts, Licenses and Permits
13. UCC-1 Financing Statements - Queens County, NY
14. UCC-1 Financing Statements - Delaware Secretary of State
15. Disbursement Letter (Settlement Statement)
16. Certificate of Mortgage Borrower
17. Side Letter re: Competitors
18. Side Letter re: Kohl's Estoppel
19. Section 275 Affidavit
20. W-9 Form
21. Form of Tenant Notification Letter

EXHIBIT B

OUTSTANDING PRINCIPAL BALANCE AND ACCRUED INTEREST

Amounts as of July 30, 2017, before application of payment due on such date.

| | |
|-------------------------|------------------|
| Outstanding Principal: | \$258,082,394.30 |
| Accrued Interest | |
| 6/30/17 through 7/29/17 | 661,574.86 |

B-1

EXHIBIT C

Wiring Instructions

(attached hereto)

C-1

EXHIBIT D

FORM OF PARTICIPATION CERTIFICATE

[ATTACHED]

D-1

EXHIBIT E

Notice Address

LENDER:

BANK OF CHINA, NEW YORK BRANCH
7 Bryant Park
1045 Avenue of the Americas
13th Floor
New York, New York 10018
Attention: Raymond L. Qiao
Chief Lending Officer
Tel: +1 (646) 231 3149
Email: lquiao@bocusa.com

INITIAL A-2 HOLDER

ALEXANDER'S OF REGO PARK II PARTICIPATING LENDER LLC
c/o Alexander's, Inc.
210 Route 4 East
Paramus, New Jersey 07652
Attention: Chief Financial Officer
Facsimile No.: (201) 843-2198

October 30, 2017

Alexander's, Inc.
210 Route 4 East
Paramus, New Jersey 07652

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Alexander's, Inc. and subsidiaries for the periods ended September 30, 2017 and 2016, as indicated in our report dated October 30, 2017; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2017, is incorporated by reference in Registration Statement No. 333-212838 on Form S-8 and Registration Statement No. 333-203287 on Form S-3.

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ DELOITTE & TOUCHE LLP
Parsippany, New Jersey

CERTIFICATION

I, Steven Roth, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alexander's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure control and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 30, 2017

/s/ Steven Roth

Steven Roth

Chairman of the Board and Chief Executive Officer

CERTIFICATION

I, Matthew Iocco, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Alexander's, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure control and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 30, 2017

/s/ Matthew Iocco

Matthew Iocco
Chief Financial Officer

CERTIFICATION

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(Subsection (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Alexander's, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 30, 2017

/s/ Steven Roth

Name: Steven Roth

Title: Chairman of the Board and Chief Executive Officer

CERTIFICATION

PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(Subsection (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code)

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350 of Chapter 63 of Title 18 of the United States Code), the undersigned officer of Alexander's, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that:

The Quarterly Report on Form 10-Q for the quarter ended September 30, 2017 (the "Report") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 30, 2017

/s/ Matthew Iocco

Name: Matthew Iocco

Title: Chief Financial Officer