

ALEXANDERS J CORP  
Form 10-Q  
November 16, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

**(Mark One)**

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

**For quarterly period ended October 2, 2005**

**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 1-8766**

**J. ALEXANDER S CORPORATION**

**(Exact name of registrant as specified in its charter)**

Tennessee

62-0854056

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

3401 West End Avenue, Suite 260, P.O. Box 24300, Nashville, Tennessee 37202

(Address of principal executive offices)

(Zip Code)

(615)269-1900

(Registrant's telephone number, including area code)

(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 is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes  No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Common Stock Outstanding 6,529,822 shares at November 16, 2005.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****J. Alexander's Corporation and Subsidiaries****Condensed Consolidated Balance Sheets****(Unaudited in thousands, except share and per share amounts)**

	<b>October 2 2005</b>	January 2 2005
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	<b>\$ 6,044</b>	\$ 6,129
Accounts and notes receivable	<b>1,646</b>	2,178
Inventories	<b>1,167</b>	1,132
Deferred income taxes	<b>1,327</b>	1,327
Prepaid expenses and other current assets	<b>847</b>	1,191
<b>TOTAL CURRENT ASSETS</b>	<b>11,031</b>	11,957
<b>OTHER ASSETS</b>	<b>1,198</b>	1,122
<b>PROPERTY AND EQUIPMENT</b> , at cost, less allowances for depreciation and amortization of \$36,930 and \$33,990 at October 2, 2005, and January 2, 2005, respectively	<b>73,995</b>	72,425
<b>DEFERRED INCOME TAXES</b>	<b>3,236</b>	3,236
<b>DEFERRED CHARGES</b> , less amortization	<b>751</b>	814
	<b>\$ 90,211</b>	\$ 89,554

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	<b>October 2 2005</b>	January 2 2005
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 2,472	\$ 3,050
Accrued expenses and other current liabilities	4,584	4,893
Unearned revenue	1,716	2,680
Current portion of long-term debt and obligations under capital leases	809	769
<b>TOTAL CURRENT LIABILITIES</b>	<b>9,581</b>	11,392
<b>LONG-TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES, net of portion classified as current</b>	<b>23,406</b>	24,017
<b>OTHER LONG-TERM LIABILITIES</b>	<b>5,043</b>	4,543
<b>STOCKHOLDERS EQUITY</b>		
Common Stock, par value \$.05 per share: Authorized 10,000,000 shares; issued and outstanding 6,515,413 and 6,460,199 shares at October 2, 2005, and January 2, 2005, respectively	326	324
Preferred Stock, no par value: Authorized 1,000,000 shares; none issued		
Additional paid-in capital	34,459	34,312
Retained earnings	17,964	15,629
	<b>52,749</b>	50,265
Note receivable Employee Stock Ownership Plan	(192)	(192)
Employee notes receivable 1999 Loan Program	(376)	(471)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>52,181</b>	49,602
	<b>\$ 90,211</b>	\$ 89,554

See notes to condensed consolidated financial statements.

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**J. Alexander's Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Income**  
**(Unaudited in thousands, except per share amounts)**

	Quarter Ended		Nine Months Ended	
	Oct. 2 2005	Sept. 26 2004	Oct. 2 2005	Sept. 26 2004
Net sales	\$ 30,044	\$ 28,794	\$ 93,151	\$ 89,430
Costs and expenses:				
Cost of sales	9,830	9,742	30,698	30,137
Restaurant labor and related costs	9,803	9,374	29,584	28,360
Depreciation and amortization of restaurant property and equipment	1,194	1,170	3,580	3,485
Other operating expenses	6,036	5,693	18,123	16,999
Total restaurant operating expenses	26,863	25,979	81,985	78,981
General and administrative expenses	2,129	1,922	6,745	6,288
Pre-opening expense	115		115	
Operating income	937	893	4,306	4,161
Other income (expense):				
Interest expense, net	(421)	(518)	(1,330)	(1,574)
Other, net	12	12	98	44
Total other expense	(409)	(506)	(1,232)	(1,530)
Income before income taxes	528	387	3,074	2,631
Income tax provision	(126)	(122)	(739)	(842)
Net income	\$ 402	\$ 265	\$ 2,335	\$ 1,789
Earnings per share:				
Basic earnings per share	\$ .06	\$ .04	\$ .36	\$ .28
Diluted earnings per share	\$ .06	\$ .04	\$ .34	\$ .26

See notes to condensed consolidated financial statements.

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**J. Alexander's Corporation and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited in thousands)**

	Nine Months Ended	
	<b>Oct. 2</b>	Sept. 26
	<b>2005</b>	2004
Net cash provided by operating activities:		
Net income	<b>\$ 2,335</b>	\$ 1,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	<b>3,647</b>	3,536
Decrease in receivables from credit card issuers	<b>472</b>	320
Decrease in receivable from landlord for tenant improvement allowance		497
Changes in other working capital accounts	<b>(1,636)</b>	(2,018)
Other operating activities	<b>710</b>	635
	<b>5,528</b>	4,759
Net cash used by investing activities:		
Purchase of property and equipment	<b>(4,722)</b>	(2,321)
Other investing activities	<b>(109)</b>	(69)
	<b>(4,831)</b>	(2,390)
Net cash (used) provided by financing activities:		
Payments on debt and obligations under capital leases	<b>(571)</b>	(566)
Proceeds from equipment financing note		750
Proceeds under bank line of credit agreement		408
Payments under bank line of credit agreement		(894)
Reduction of employee notes receivable 1999 Loan Program	<b>95</b>	53
(Decrease) increase in bank overdraft	<b>(455)</b>	1,032
Exercise of employee stock options	<b>149</b>	52
	<b>(782)</b>	835
(Decrease) increase in cash and cash equivalents	<b>(85)</b>	3,204
Cash and cash equivalents at beginning of period	<b>6,129</b>	872
Cash and cash equivalents at end of period	<b>\$ 6,044</b>	\$ 4,076
Supplemental disclosures of non-cash items:		
Property and equipment obligations accrued at beginning of period	<b>\$ 123</b>	\$ 375
Property and equipment obligations accrued at end of period	<b>\$ 768</b>	\$ 55

See notes to condensed consolidated financial statements.



**Table of Contents****J. Alexander's Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Unaudited)****NOTE A BASIS OF PRESENTATION**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Certain reclassifications have been made in the prior year's condensed consolidated financial statements to conform to the 2005 presentation. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter and nine months ended October 2, 2005, are not necessarily indicative of the results that may be expected for the fiscal year ending January 1, 2006. For further information, refer to the consolidated financial statements and footnotes thereto included in the J. Alexander's Corporation (the Company's) annual report on Form 10-K for the fiscal year ended January 2, 2005.

Net income and comprehensive income are the same for all periods presented.

**NOTE B ACCOUNTS RECEIVABLE**

The Company receives payment from third party credit card issuers for purchases made by guests using the issuers credit cards. The issuers typically pay the Company within three to four days of the credit card transaction. Historically, these amounts were treated as in-transit cash deposits. Effective July 3, 2005, these amounts have been classified as accounts receivable for all periods presented. In addition, the Condensed Consolidated Statement of Cash Flows for the nine months ended September 26, 2004 has been reclassified to reflect the impact of this presentation. Accounts receivable related to credit card transactions were as follows at the following dates (in thousands):

October 2, 2005	\$ 1,529
January 2, 2005	\$ 2,001
September 26, 2004	\$ 1,646
December 28, 2003	\$ 1,966

**NOTE C CASH OVERDRAFT**

As a result of utilizing a consolidated cash management system, the Company's books reflect an overdraft position with respect to accounts maintained at its primary bank at various times throughout the year. Overdraft balances, which were included in accounts payable, were as follows at the following dates (in thousands):

October 2, 2005	\$ 180
January 2, 2005	\$ 635
September 26, 2004	\$ 2,235
December 28, 2003	\$ 1,203

The January 2, 2005 Condensed Consolidated Balance Sheet has been reclassified to reflect the overdraft at that date, and the Condensed Consolidated Statement of Cash Flows for the nine months ended September 26, 2004 has been reclassified to reflect the balances noted above.

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The following table sets forth the computation of basic and diluted earnings per share:

	Quarter Ended		Nine Months Ended	
	Oct. 2 2005	Sept. 26 2004	Oct. 2 2005	Sept. 26 2004
(In thousands, except per share amounts)				
<b>Numerator:</b>				
Net income (numerator for basic earnings per share)	\$ 402	\$ 265	\$ 2,335	\$ 1,789
Effect of dilutive securities				
Net income after assumed conversions (numerator for diluted earnings per share)	\$ 402	\$ 265	\$ 2,335	\$ 1,789
<b>Denominator:</b>				
Weighted average shares (denominator for basic earnings per share)	6,501	6,450	6,477	6,443
Effect of dilutive securities:				
Employee stock options	344	326	330	341
Adjusted weighted average shares and assumed conversions (denominator for diluted earnings per share)	6,845	6,776	6,807	6,784
Basic earnings per share	\$ .06	\$ .04	\$ .36	\$ .28
Diluted earnings per share	\$ .06	\$ .04	\$ .34	\$ .26

The calculations of diluted earnings per share exclude stock options for the purchase of 57,000 and 149,000 shares of the Company's common stock for the quarters ended October 2, 2005 and September 26, 2004, respectively, because the exercise prices of the options were greater than the average market price of the common stock for the applicable periods and the effect of their inclusion would be anti-dilutive. Options to purchase 91,000 and 128,000 shares of common stock were likewise excluded from the diluted earnings per share calculation for the nine months ended October 2, 2005 and September 26, 2004, respectively.

**NOTE E INCOME TAXES**

Income tax expense for the third quarter and first nine months of 2005 has been provided for based on an effective tax rate of approximately 24% expected to be applicable for the full 2005 fiscal year. The effective income tax rate differs from applying the statutory federal income tax rate of 34% to income before income taxes primarily due to employee FICA tip tax credits (a reduction in income tax expense) partially offset by state income taxes.

**Table of Contents****NOTE F STOCK BASED COMPENSATION**

The Company accounts for its stock compensation arrangements using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25 Accounting for Stock Issued to Employees (APB No. 25) and, accordingly, typically recognizes no compensation expense for such arrangements. One stock option award, issued to the Company's Chief Executive Officer in 1999 at an initial exercise price equal to the fair market value of the Company's common stock on the date of the award, included a provision whereby the exercise price increased annually as long as the option remained unexercised and therefore was accounted for as a variable stock option award. The Company's board of directors fixed the exercise price of this option at \$3.94 on May 25, 2004. As a result, no additional compensation expense will be recognized with respect to this option grant subsequent to May 25, 2004. Compensation expense included \$18,000 of expense associated with this option grant for the first nine months of 2004.

The following table represents the effect on net income and earnings per share if the Company had applied the fair value based Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:

	Quarter Ended		Nine Months Ended	
	Oct. 2 2005	Sept. 26 2004	Oct. 2 2005	Sept. 26 2004
(In thousands, except per share amounts)				
Net income, as reported	\$ 402	\$ 265	\$ 2,335	\$ 1,789
Add: Compensation expense related to variable stock option award, net of related tax effects				18
Deduct: Stock-based employee compensation expense determined under fair value methods for all awards, net of related tax effects	(23)	(31)	(90)	(82)
Pro forma net income	\$ 379	\$ 234	\$ 2,245	\$ 1,725
Earnings per share:				
Basic, as reported	\$ .06	\$ .04	\$ .36	\$ .28
Basic, pro forma	\$ .06	\$ .04	\$ .35	\$ .27
Diluted, as reported	\$ .06	\$ .04	\$ .34	\$ .26
Diluted, pro forma	\$ .06	\$ .03	\$ .33	\$ .26
Weighted average shares used in computation:				
Basic	6,501	6,450	6,477	6,443
Diluted	6,827	6,743	6,791	6,758

For purposes of pro forma disclosures, the estimated fair value of stock-based compensation is amortized to expense primarily over the vesting period.

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**NOTE G COMMITMENTS AND CONTINGENCIES**

As a result of the disposition of its Wendy's operations in 1996, the Company remains secondarily liable for certain real property leases with remaining terms of one to eleven years. The total estimated amount of lease payments remaining on these 28 leases at October 2, 2005 was approximately \$3.8 million. In connection with the sale of its Mrs. Winner's Chicken & Biscuit restaurant operations in 1989 and certain previous dispositions, the Company also remains secondarily liable for certain real property leases with remaining terms of one to five years. The total estimated amount of lease payments remaining on these 27 leases at October 2, 2005, was approximately \$2.4 million. Additionally, in connection with the previous disposition of certain other Wendy's restaurant operations, primarily the southern California restaurants in 1982, the Company remains secondarily liable for certain real property leases with remaining terms of one to five years. The total estimated amount of lease payments remaining on these 11 leases as of October 2, 2005, was approximately \$1.4 million.

In September of 2004, a lawsuit was filed in the U.S. District Court for the Middle District of Tennessee against the Company by the Equal Employment Opportunity Commission alleging that under Title VII of the Civil Rights Act of 1964 and Title I of the Civil Rights Act of 1991 the Company engaged in unlawful employment practices in two of its restaurants by discriminating against male applicants who were denied employment as bartenders based upon their gender. In October 2005, the Company settled this litigation for a nominal amount solely to avoid costs and inconvenience associated with the litigation. The Company expressly denied the allegations and denied violating any laws.

The Company is from time to time subject to routine litigation incidental to its business. The Company believes that the results of such legal proceedings will not have a materially adverse effect on the Company's financial condition, operating results or liquidity.

**NOTE H RELATED PARTY TRANSACTION**

E. Townes Duncan, a director of the Company, is a minority owner of and manages the investments of Solidus Company (Solidus), the Company's largest shareholder. On July 31, 2005, the Company entered into an Amended and Restated Standstill Agreement (the Agreement) with Solidus to extend, subject to certain conditions, the existing contractual restrictions on Solidus' 1,747,846 shares of the Company's Common Stock until December 1, 2009. The Agreement will continue after January 15, 2006, provided that the Company pays a minimum cash dividend to shareholders of either \$0.025 per share each quarter, or \$0.10 per share annually. Solidus agreed that it will not seek to increase its ownership of the Company's Common Stock above 33% of the Common Stock outstanding and that it will not sell or otherwise transfer its Common Stock without the consent of the Company's Board of Directors; provided that Solidus and its affiliate may sell up to 106,000 shares per twelve-month period beginning December 1, 2006. The Agreement replaces in its entirety the Stock Purchase and Standstill Agreement dated as of March 22, 1999.

The Agreement was negotiated and approved on behalf of the Company by the Audit

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Committee of the Board of Directors, which is comprised solely of independent directors. The Company's ability to pay a dividend will depend on its financial condition and results of operations at any time a dividend is considered or paid.

**NOTE I RECENT ACCOUNTING PRONOUNCEMENTS**

The Financial Accounting Standards Board (FASB) has issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which replaces SFAS No. 123 and supercedes APB No. 25. SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair value beginning in the first quarter of 2006. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. Under SFAS 123R, the Company must determine an appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The Company is assessing SFAS No. 123R and has not determined the impact that adoption of this statement will have on its results of operations.

In October 2005, the FASB issued Staff Position 13-1, Accounting for Rental Costs Incurred During a Construction Period (FSP 13-1). FSP 13-1 is effective for the first reporting period beginning after December 15, 2005 and requires that rental costs associated with ground or building operating leases that are incurred during a construction period be recognized as rental expense. The Company currently capitalizes these costs, which have averaged approximately \$145,000 per location based upon the leased properties placed in service since 2001.

**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**RESULTS OF OPERATIONS****Overview**

J. Alexander's Corporation (the Company) owns and operates upscale casual dining restaurants which offer a contemporary American menu. J. Alexander's restaurants compete in the restaurant industry by placing special emphasis on high food quality and high levels of professional service offered in an attractive environment. J. Alexander's typically does no advertising and relies on each restaurant to increase sales through building its reputation as an outstanding dining establishment. The Company has generally been successful in achieving same store sales increases over time using this strategy. At October 2, 2005, the Company owned and operated 27 J. Alexander's restaurants in 12 states. The Company's twenty-eighth restaurant opened in October of 2005, subsequent to the end of the third quarter.

Income before income taxes increased by \$141,000 for the third quarter of 2005 and by \$443,000 for the first nine months of 2005 compared to the same periods of 2004. Net income increased by \$137,000 for the third quarter and by \$546,000 for the first nine months of 2005 compared to the corresponding 2004 periods. The improvements in income before income taxes were primarily due to increases in net sales which were greater than the increases in total restaurant operating expenses and to lower net interest expense, which more than offset increases in general and administrative expenses and pre-opening expense. As discussed further below, a portion of the increase in net sales was due to the Company's restaurants being closed for fewer days in 2005 than in 2004 due to the effect of hurricanes and severe weather.

The Company's weekly average same store sales for the third quarter and first nine months of 2005 increased by 3.8% and 3.7%, respectively, over the corresponding periods of 2004. Management believes that same store sales performance, which is commonly used in the restaurant industry to compare the results of the same base of restaurants for comparable periods, is an important factor in assessing the performance of the Company's restaurant operations. Management attributes the increases in same store sales in 2005 to continued emphasis on providing high quality food and professional service, the effects of menu price increases and the change in April of 2005 in the menu pricing format for certain of the Company's entrees as described below.

In order to reduce cost of sales as a percentage of net sales and improve operating margins, and in connection with an upgrade of the Company's beef program, in April of 2005 the Company increased prices for selected menu items and changed its menu pricing format to modified a la carte pricing for beef and seafood entrees. Under the modified a la carte format, menu prices of beef and seafood entrees which previously included a dinner salad decreased by \$1.00 to \$2.00 in many locations (although increasing in certain major market locations), but no longer include a salad. If desired, a salad can now be added for an additional charge of \$4.00. Management is generally pleased with the results of these changes and the reductions achieved in cost of sales percentages; however, the Company experienced some resistance by guests to these changes in certain locations and has eliminated the modified a la carte pricing format in six restaurants, located primarily in the Company's smaller markets.

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While management expects that weighted average same store sales will continue to increase during the fourth quarter of 2005, guest counts have remained down in a number of locations and on a consolidated basis following the menu pricing changes discussed above, and management does not currently expect weekly average same store sales growth to exceed the growth rate experienced by the Company in the previous quarters of 2005. Additionally, there has been significant development of new upscale restaurants in most of the markets in which the Company operates, which may cause temporary declines in sales in some locations as guests try new restaurants.

During the third quarter of 2005, four of the Company's restaurants were closed for a combined total of 11 operating days due to storm conditions and power outages resulting from Hurricanes Katrina and Rita. The Company estimates that net sales for the quarter were reduced by approximately \$100,000 as a result of the net effect of sales lost in the restaurants closed and sales increases in the Baton Rouge restaurant, which benefited from evacuations to that city. During the same quarter of 2004, J. Alexander's closed restaurants for a total of 24 days primarily due to hurricanes. The Company estimates that net sales in that period were reduced by approximately \$300,000 as a result of the closings.

Subsequent to the end of the third quarter of 2005, the Company's three restaurants in South Florida were closed for a total of 28 operating days as a result of power outages caused by Hurricane Wilma. None of the restaurants sustained any significant physical damage and all have now re-opened. The Company estimates that net sales in these restaurants were reduced by approximately \$365,000 as the net result of the closures and higher than normal sales activity experienced for a short period of time immediately following their re-opening.

As a result of the effect of net sales lost due to hurricane-related power outages; higher commodity, utility and insurance costs; pre-opening expense incurred in connection with a new restaurant opening; and one less week being included in the fourth quarter of the current fiscal year, management expects that operating income and income before income taxes may be significantly less for the fourth quarter of 2005 than amounts recorded in the fourth quarter of 2004.

The following table sets forth, for the periods indicated, (i) the items in the Company's Condensed Consolidated Statements of Income expressed as a percentage of net sales, and (ii) other selected operating data:

	Quarter Ended		Nine Months Ended	
	Oct. 2 2005	Sept. 26 2004	Oct. 2 2005	Sept. 26 2004
Net sales	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of sales	32.7	33.8	33.0	33.7
Restaurant labor and related costs	32.6	32.6	31.8	31.7
Depreciation and amortization of restaurant property and equipment	4.0	4.1	3.8	3.9

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	Quarter Ended		Nine Months Ended	
	<b>Oct. 2</b>	Sept. 26	<b>Oct. 2</b>	Sept. 26
	<b>2005</b>	2004	<b>2005</b>	2004
Other operating expenses	<b>20.1</b>	19.8	<b>19.5</b>	19.0
Total restauran				