ALEXANDERS J CORP
Form 10-Q
November 12, 2003

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For quarterly period ended September 28, 2003

OR

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

For the transition period from to .

Commission file number 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 x No o

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 o No x

Common Stock Outstanding 6,433,041 shares at November 10, 2003.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

J. Alexander s Corporation and Subsidiaries
Consolidated Condensed Balance Sheets
(Dollars in thousands, except per share amount)

	September 28 2003	December 29 2002
	(Unaudited)	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 742**	$ 10,525
Accounts and notes receivable, including current portion of direct financing leases	**108**	97
Inventories	**895**	790
Deferred income taxes	**488**	488
Prepaid expenses and other current assets	**814**	1,000
TOTAL CURRENT ASSETS	**3,047**	12,900
OTHER ASSETS	**1,012**	951
PROPERTY AND EQUIPMENT, at cost, less allowances for depreciation and amortization of $29,042 and $26,247 at September 28, 2003, and December 29, 2002, respectively	**73,530**	69,521
DEFERRED INCOME TAXES	**712**	712
DEFERRED CHARGES, less amortization	**915**	949
	$ 79,216	$ 85,033

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	September 28 2003	December 29 2002
	(Unaudited)	
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 3,670**	$ 3,035
Accrued expenses and other current liabilities	**3,851**	4,982
Unearned revenue	**1,848**	2,692
Current portion of long-term debt and obligations under capital leases	**640**	6,786
TOTAL CURRENT LIABILITIES	**10,009**	17,495
LONG-TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES, net of portion classified as current	**24,825**	24,451
OTHER LONG-TERM LIABILITIES	**2,497**	2,288
STOCKHOLDERS EQUITY		
Common Stock, par value $.05 per share: Authorized 10,000,000 shares; issued and outstanding 6,433,041 and 6,660,535 shares at September 28, 2003, and December 29, 2002, respectively	**322**	333
Preferred Stock, no par value: Authorized 1,000,000 shares; none issued		
Additional paid-in capital	**33,613**	34,357
Retained earnings	**9,058**	7,527
	42,993	42,217
Note receivable Employee Stock Ownership Plan	**(536)**	(688)
Employee notes receivable 1999 Loan Program	**(572)**	(730)
TOTAL STOCKHOLDERS EQUITY	**41,885**	40,799
	$ 79,216	$ 85,033

See notes to consolidated condensed financial statements.

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

	Nine Months Ended		Quarter Ended	
	Sept. 28 2003	Sept. 29 2002	**Sept. 28 2003**	Sept. 29 2002
Net sales	**$78,697**	$73,680	**$25,832**	$23,698
Costs and expenses:				
Cost of sales	**25,345**	23,338	**8,418**	7,570
Restaurant labor and related costs	**25,751**	24,644	**8,519**	8,073
Depreciation and amortization of restaurant property and equipment	**3,201**	3,295	**1,065**	1,099
Other operating expenses	**14,332**	13,849	**4,814**	4,651
Total restaurant operating expenses	**68,629**	65,126	**22,816**	21,393
General and administrative expenses	**5,888**	5,915	**1,968**	1,903
Pre-opening expense	**526**	42	**236**	42
Operating income	**3,654**	2,597	**812**	360
Other income (expense):				
Interest expense, net	**(1,594)**	(850)	**(500)**	(254)
Other, net	**(19)**	(60)	**18**	(28)
Total other expense	**(1,613)**	(910)	**(482)**	(282)
Income before income taxes and cumulative effect of change in accounting principle	**2,041**	1,687	**330**	78
Income tax (provision) benefit	**(510)**	(742)	**55**	(34)
Income before cumulative effect of change in accounting principle	**1,531**	945	**385**	44
Cumulative effect of change in accounting principle		(171)		
Net income	**$ 1,531**	$ 774	**$ 385**	$ 44
Basic earnings per share:				
Income before cumulative effect of change in accounting principle	**$ .24**	$ .14	**$ .06**	$ .01
Cumulative effect of change in accounting principle		(.03)		
Basic earnings per share	**$ .24**	$ .11	**$ .06**	$ .01
Diluted earnings per share:				
Income before cumulative effect of change in accounting principle	**$ .23**	$ .14	**$ .06**	$ .01
Cumulative effect of change in accounting principle		(.03)		
Diluted earnings per share	**$ .23**	$ .11	**$ .06**	$ .01

See notes to consolidated condensed financial statements.

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

	Nine Months Ended	
	Sept. 28 2003	**Sept. 29 2002**
Net cash provided by operating activities	**$ 3,309**	$ 4,359
Net cash used by investing activities:		
Purchase of property and equipment	**(6,279)**	(4,437)
Other investing activities	**(68)**	(55)
	(6,347)	(4,492)
Net cash (used) provided by financing activities:		
Payments on debt and obligations under capital leases	**(6,647)**	(1,723)
Proceeds under bank line of credit agreement	**3,200**	29,586
Payments under bank line of credit agreement	**(2,700)**	(28,625)
Common stock repurchased	**(848)**	
Reduction of employee notes receivable 1999 Loan Program	**158**	
Increase in bank overdraft		739
Other	**92**	(97)
	(6,745)	(120)
Decrease in cash and cash equivalents	**(9,783)**	(253)
Cash and cash equivalents at beginning of period	**10,525**	1,035
Cash and cash equivalents at end of period	**$ 742**	$ 782

See notes to consolidated condensed financial statements.

J. Alexander s Corporation and Subsidiaries
Notes to Consolidated Condensed Financial Statements (Unaudited)

NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with 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 generally accepted accounting principles for complete financial statements. Certain reclassifications have been made in the prior year s consolidated condensed financial statements to conform to the 2003 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 September 28, 2003, are not necessarily indicative of the results that may be expected for the fiscal year ending December 28, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the J. Alexander s Corporation s (the Company s) annual report on Form 10-K for the fiscal year ended December 29, 2002.

NOTE B EARNINGS PER SHARE

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

(In thousands, except per share amounts)	Nine Months Ended		Quarter Ended	
	Sept. 28 2003	Sept. 29 2002	Sept. 28 2003	Sept. 29 2002
Numerator:				
Net income (numerator for basic earnings per share)	**$1,531**	$ 774	**$ 385**	$ 44
Effect of dilutive securities				
Net income after assumed conversions (numerator for diluted earnings per share)	**$1,531**	$ 774	**$ 385**	$ 44
Denominator:				
Weighted average shares (denominator for basic earnings per share)	**6,504**	6,780	**6,424**	6,764
Effect of dilutive securities:				
Employee stock options	**123**	59	**208**	61
Adjusted weighted average shares and assumed conversions (denominator for diluted earnings per share)	**6,627**	6,839	**6,632**	6,825
Basic earnings per share	**$ .24**	$ .11	**$ .06**	$ .01
Diluted earnings per share	**$ .23**	$ .11	**$ .06**	$ .01

In situations where the exercise price of outstanding employee stock options is greater than the average market price of common shares, such options are excluded from the

computation of diluted earnings per share because of their antidilutive impact. For the quarter ended September 28, 2003, options to purchase 206,000 shares of common stock, at prices ranging from $4.97 to $11.69, were excluded from the computation of diluted earnings per share due to their antidilutive effect. During the corresponding period of 2002, options to purchase 247,000 shares of common stock, at prices ranging from $3.44 to $11.69, were similarly excluded from the computation of diluted earnings per share.

For the nine months ended September 28, 2003 and September 29, 2002, respectively, options to purchase 350,000 and 417,000 shares of common stock were excluded from the diluted earnings per share calculation, at prices ranging from $3.42 to $11.69 (2003) and $2.75 to $11.69 (2002).

NOTE C INCOME TAXES

The Company s provisions for income taxes for the first nine months of 2003 and the nine months and third quarter of 2002 result from estimated federal alternative minimum tax (AMT) and state income taxes payable. During the third quarter of 2003, the Company reduced its estimated effective annual income tax rate from 33% of income before taxes and cumulative effect of change in accounting principle to 25%. The impact of the effective rate reduction was to decrease the income tax provisions for the nine months and quarter ended September 28, 2003 by $164,000, resulting in a tax benefit of $55,000 for the quarter ended September 28, 2003. As a result, diluted earnings per share for the nine months and third quarter ended September 28, 2003 were increased by $.02 and $.03, respectively.

The effective tax rates result from the AMT rate being applied to the Company s pre-tax accounting income after adding back certain tax preference items as well as permanent differences and timing differences in book and tax income. The Company maintains a significant valuation allowance on its deferred tax assets, and no benefit is recognized in the current year s income tax provision with respect to the AMT credit carryforward or other tax assets generated for the year. Further, because of the application of AMT, the Company at its current taxable income level is unable to take advantage of certain tax carryforwards that it has accumulated.

NOTE D LONG-TERM DEBT

In October 2002, the Company obtained $25,000,000 of long-term mortgage financing. The mortgage loan has an effective annual interest rate, including the effect of the amortization of deferred issue costs, of 8.6% and is payable in equal monthly installments of principal and interest of approximately $212,000 through November 2022. At September 28, 2003, the mortgage loan had an outstanding balance of $24,571,000. A portion of the proceeds from this loan was used to pay off the outstanding balance of $15,470,000 on the Company s bank line of credit, terminating that facility. Remaining funds were used primarily for retiring the Company s $6,250,000 Convertible Subordinated Debentures and for new restaurant development.

On May 12, 2003, the Company entered into a $5 million secured bank line of credit agreement which is available for financing capital expenditures related to the development of new restaurants and for general operating purposes. Borrowings outstanding under this line of credit totaled $500,000 at September 28, 2003. Provisions of the line of credit agreement require that a minimum fixed charge coverage ratio be maintained and that the Company s leverage ratio

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not exceed a specified level. The Company s ability to incur additional debt outside of the line of credit is also restricted. The line of credit is secured by the real estate of two of the Company s restaurant locations with an aggregate book value of $8,197,000 at September 28, 2003 and bears interest on the outstanding borrowings at the rate of LIBOR plus a spread of two to four percent, depending on the leverage ratio. The credit line expires on April 30, 2006, unless converted to a term loan prior to March 30, 2006 under the provisions of the agreement.

In connection with a new J. Alexander s restaurant to be opened in the fourth quarter of 2003, the Company recorded a capital building lease asset and a capital building lease obligation in the amount of $375,000 during the quarter ended September 28, 2003. For cash flow purposes, this transaction was considered a non-cash investing and financing activity.

NOTE E 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 and, accordingly, typically recognizes no compensation expense for such arrangements.

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.

	Nine Months Ended		Quarter Ended	
	Sept 28 2003	**Sept 29 2003**	**Sept 28 2003**	**Sept 29 2002**
(In thousands, except per share amounts)				
Net income, as reported	**$1,531**	$ 774	**$ 385**	$ 44
Deduct: Total stock-based employee compensation expense determined under fair value methods for all awards, net of related tax effects	**(66)**	(71)	**(29)**	(23)
Pro forma net income	**$1,465**	$ 703	**$ 356**	$ 21
Net income per share:				
Basic, as reported	**$ .24**	$ .11	**$ .06**	$ .01
Basic, pro forma	**$ .23**	$ .10	**$ .06**	$
Diluted, as reported	**$ .23**	$ .11	**$ .06**	$ .01
Diluted, pro forma	**$ .22**	$ .10	**$ .05**	$
Weighted average shares used in computation:				
Basic	**6,504**	6,780	**6,424**	6,764
Diluted	**6,627**	6,839	**6,632**	6,825

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As required, the pro forma disclosures above include options granted since January 1, 1995. Consequently, the effects of applying SFAS No. 123 for providing pro forma disclosures may not be representative of the effects on reported net income for future years until all options outstanding are included in the pro forma disclosures. For purposes of pro forma disclosures, the estimated fair value of stock-based compensation plans and other options is amortized to expense primarily over the vesting period.

NOTE F GOODWILL AND OTHER INTANGIBLE ASSETS

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142, Goodwill and Other Intangible Assets, which eliminated the systematic amortization of goodwill. The Company adopted SFAS No. 142, effective December 31, 2001, and ceased amortization of its goodwill balance. However, intangible assets with finite lives continue to be amortized over their estimated useful lives.

SFAS No. 142 also required the Company to complete an impairment review of its goodwill. During the fourth quarter of 2002, the Company completed its transitional impairment test and determined that the goodwill associated with the acquisition of its original restaurant was impaired. Accordingly, effective as of the first quarter of fiscal 2002, the Company recorded as a cumulative effect of change in accounting principle a write-off of its goodwill balance in the amount of $171,000 on which the Company recognized no tax benefit.

NOTE J 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 thirteen years. The total estimated amount of lease payments remaining on these 27 individual leases at September 28, 2003 was approximately $5.0 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 and personal property leases with remaining terms of one to five years. The total estimated amount of lease payments remaining on these 32 individual leases at September 28, 2003, was approximately $2.1 million. Additionally, in connection with the previous disposition of certain other Wendy s restaurant operations, primarily the southern California Wendy s 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 individual leases as of September 28, 2003, was approximately $1.2 million.

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.

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

The following table sets forth, for the periods indicated, (i) the percentages which the items in the Company s Consolidated Statements of Income bear to total net sales, and (ii) other selected operating data:

	Nine Months Ended		Quarter Ended	
	Sept. 28 2003	**Sept. 29 2002**	**Sept. 28 2003**	**Sept. 29 2002**
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Costs and expenses:				
Cost of sales	**32.2**	31.7	**32.6**	31.9
Restaurant labor and related costs	**32.7**	33.4	**33.0**	34.1
Depreciation and amortization of restaurant property and equipment	**4.1**	4.5	**4.1**	4.6
Other operating expenses	**18.2**	18.8	**18.6**	19.6
Total restaurant operating expenses	**87.2**	88.4	**88.3**	90.3
General and administrative expenses	**7.5**	8.1	**7.7**	8.1
Pre-opening expense	**0.7**	0.1	**0.9**	0.2
Other income (expense):				
Interest expense, net	**(2.0)**	(1.1)	**(1.9)**	(1.0)
Other, net		(0.1)	**0.1**	(0.1)
Total other expense	**(2.0)**	(1.2)	**(1.8)**	(1.2)
Income before income taxes and cumulative effect of change in accounting principle	**2.6**	2.3	**1.3**	0.3
Income tax (provision) benefit	**(0.6)**	(1.0)	**0.2**	(0.1)
Income before cumulative effect of change in accounting principle	**1.9**	1.3	**1.5**	0.2
Cumulative effect of change in accounting principle		(0.2)		
Net income	**1.9%**	1.1%	**1.5%**	0.2%
Note: Certain percentage totals do not sum due to rounding.				
Restaurants open at end of period			**25**	24
Weighted average weekly sales per restaurant:				
All restaurants	**$81,300**	$78,800	**$79,500**	$76,000
Same store restaurants	**$81,400**	$78,600	**$79,700**	$76,000

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Net Sales

Net sales increased by $5,017,000, or 6.8%, and $2,134,000, or 9.0%, for the first nine months and third quarter of 2003, respectively, as compared to the same periods of 2002. These increases were attributable to a new restaurant opened in March of 2003 and to sales increases within the Company s same store restaurant base.

Same store sales averaged $81,400 and $79,700 per week on a base of 24 restaurants during the nine months and third quarter ended September 28, 2003, representing increases of 3.6% and 4.9% compared to the same periods of 2002. The Company computes weighted average weekly sales per restaurant by dividing total restaurant sales for the period by the total number of days all restaurants were open for the period to obtain a daily sales average, with the daily sales average then multiplied by seven to arrive at weekly average sales per restaurant. Days on which restaurants are closed for business for any reason other than the scheduled closure of all J. Alexander s restaurants on Thanksgiving day and Christmas day are excluded from this calculation. Weighted average weekly same store sales per restaurant are computed in the same manner as described above except that sales and sales days used in the calculation include only those for restaurants open for more than 18 months.

The Company has made no significant menu price changes in either 2002 or 2003 and management estimates the average checks per guest, excluding alcoholic beverage sales, of approximately $15.87 for the first nine months and $15.78 for the third quarter of 2003 were approximately the same as those for the comparable periods of the prior year. The Company estimates that customer traffic (guest counts) on a same store basis increased by approximately 2.8% and 4.1% during the first nine months and third quarter of 2003, respectively, compared to the corresponding periods of 2002.

Management believes that its long term emphasis on providing professional service combined with effective menu management has contributed to increases in same store sales and customer traffic and that this approach will continue to build sales over time. The Company s same store sales trends have remained solid and same store sales have been positive in October 2003 compared to October 2002.

Costs and Expenses

Total restaurant operating expenses decreased to 87.2% and 88.3% of sales in the first nine months and third quarter of 2003 from 88.4% and 90.3% in the corresponding periods of 2002.

Cost of sales increased to 32.2% and 32.6% of sales in the first nine months and third quarter of 2003 compared to 31.7% and 31.9% in the corresponding periods of 2002, due primarily to increases in the prices of poultry and, particularly in the second quarter, produce, combined with the effects of upgrading selected beef products to higher quality and more expensive Certified Angus Beef, product mix shifts and increases in certain other commodity prices. The Company has experienced upward pressure on prices of many of its food items in recent months and does not expect these to moderate significantly in the near future. The increases in cost of sales as a percentage of sales were offset by decreases in all other restaurant operating expense categories as discussed below.

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The Company typically enters into an annual pricing agreement for its beef purchases. Market prices for beef are currently significantly higher than prices the Company is paying under its current pricing agreement which expires on March 1, 2004. Depending on market conditions, management believes the Company s cost of beef could increase significantly upon the expiration of the current agreement and that any such increase will negatively affect profitability to the extent that the Company is unable to successfully raise menu prices in order to offset the higher costs. If the Company does increase menu prices, the profitability levels and the positive same store sales and guest count trends the Company is currently experiencing may be adversely affected.

Restaurant labor and related costs decreased to 32.7% and 33.0% of sales during the first nine months and third quarter of 2003 from 33.4% and 34.1% of sales during the same periods of 2002. These decreases were due largely to the effect of higher tip share contributions by restaurant servers to each restaurant s tip pool, which resulted in reductions in the hourly wage rates paid by the Company to the employees receiving larger distributions under the tip pool program. The favorable effects of the higher tip share contributions combined with labor efficiencies gained at higher sales volumes more than offset the impact of increased wages associated with kitchen staff and increases in workers compensation insurance premiums.

Depreciation and amortization of restaurant property and equipment decreased to 4.1% of sales for both the first nine months and third quarter of 2003, compared to 4.5% and 4.6% of sales during the corresponding periods of the prior year, primarily due to assets which became fully depreciated.

Other operating expenses decreased to 18.2% of sales during the first nine months and 18.6% of sales for the third quarter of 2003 compared to 18.8% and 19.6% of sales in the corresponding periods of 2002. These decreases are primarily related to operating efficiencies gained at higher sales volumes and management s emphasis on controlling costs in this area.

While management expects the Company s established restaurants to continue to post solid performance during the remainder of 2003, the financial improvement from these restaurants in the fourth quarter of 2003 compared to the same quarter of the prior year is expected to be more than offset by pre-opening expenses and start-up operating losses associated with two new restaurants to be opened in the quarter. Therefore, management anticipates that income before taxes for fiscal year 2003 will approximate or modestly exceed income before taxes reported for 2002.

Management believes that continuing to increase sales volumes in the Company s restaurants is a significant factor in improving the Company s profitability and it intends to maintain a conservative new restaurant development rate of generally one to two new restaurants per year to allow management to focus intently on improving sales and profits in its existing restaurants while maintaining its pursuit of operational excellence. Further, the Company s criteria for new restaurant development target locations with high population densities and high household incomes which management believes provide the best prospects for achieving outstanding financial returns on the Company s investments in new restaurants.

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General and Administrative Expenses

General and administrative expenses, which include supervisory costs as well as management training costs and all other costs above the restaurant level, decreased to 7.5% and 7.7% of sales for the first nine months and third quarter of 2003 from 8.1% for the corresponding periods of 2002. These decreases as a percentage of sales are primarily related to higher sales volumes achieved by the Company and management s emphasis on containment of general and administrative expenses.

Pre-Opening Expense

Pre-opening costs, which are expensed as incurred, totaled $526,000 and $236,000 for the first nine months and third quarter of 2003, respectively. These costs were related to the Northbrook, Illinois restaurant opened in March of 2003, and, for the third quarter, to pre-opening expenses incurred for the two restaurants to be opened in the fourth quarter of 2003. An additional $500,000 to $600,000 of pre-opening expenses are expected to be incurred in the fourth quarter in connection with the two new restaurants being opened in that period. Due to the addition of a restaurant to the development schedule for 2003, pre-opening expenses will be higher than originally planned and are expected to increase by $900,000 to $1,000,000 in fiscal year 2003 compared to 2002. No new restaurants were opened during 2002.

Other Income (Expense)

Net interest expense increased to $1,594,000 during the first nine months of 2003 from $850,000 during the corresponding period of 2002. For the third quarter of 2003, net interest expense increased to $500,000 from $254,000 in the same period of the prior year. These increases were due to increased borrowings and to higher interest rates associated with $25,000,000 of mortgage financing completed by the Company during the fourth quarter of 2002. Primarily as a result of higher interest rates associated with the mortgage financing, net interest expense is expected to increase by approximately $800,000 in 2003 compared to 2002.

Income Taxes

The Company s provisions for income taxes for the first nine months of 2003 and for the first nine months and third quarter of 2002 result from estimated federal alternative minimum tax (AMT) and state income taxes payable. The tax benefit for the third quarter of 2003 results from the effect on the third quarter of a reduction in the Company s estimated effective annual income tax rate which was applied to pre-tax income on a year-to-date basis.

The effective tax rates result from the AMT rate being applied to the Company s pre-tax accounting income after adding back certain tax preference items as well as permanent differences and timing differences in book and tax income. The Company maintains a significant valuation allowance on its deferred tax assets, and no benefit is recognized in the current year s income tax provision with respect to the AMT credit carryforward or other tax assets generated for the year. Further, because of the application of AMT, the Company at its current taxable income level is presently unable to take advantage of certain tax carryforwards that it has accumulated.

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LIQUIDITY AND CAPITAL RESOURCES

The Company had cash flow from operations totaling $3,309,000 and $4,359,000 during the first nine months of 2003 and 2002, respectively. Cash and cash equivalents decreased from $10,525,000 at year end 2002 to $742,000 at September 28, 2003 as these funds, along with cash flows from operations, were used primarily to retire $6,250,000 of the Company s outstanding Convertible Subordinated Debentures, to fund costs associated with the construction of new restaurants, to fund improvements to existing restaurants, and for the repurchases of the Company s common stock.

The Company requires capital primarily for the development and construction of new J. Alexander s restaurants, for maintenance of its existing restaurants, and for meeting debt service obligations. The Company has met these needs and maintained liquidity in recent years primarily by use of cash flow from operations, use of a bank line of credit and, beginning in October 2002, through borrowings under a mortgage loan.

On October 29, 2002, the Company obtained $25,000,000 of long-term mortgage financing. The mortgage loan has an effective annual interest rate, including the effect of the amortization of deferred issue costs, of 8.6% and is payable in equal monthly installments of principal and interest of approximately $212,000 over a period of 20 years through November 2022. Net proceeds from the mortgage loan, after deducting fees and expenses associated with the transaction, were approximately $24,275,000. A portion of the proceeds from this loan were used to pay off the outstanding balance of $15,470,000 on the Company s bank line of credit as of October 29, 2002, terminating that facility. The remaining funds were used primarily for retiring debentures and new restaurant development as noted above.

In addition to the Northbrook, Illinois restaurant opened in March 2003, the Company plans to open two restaurants in the fourth quarter of 2003. Management estimates that total capital expenditures for new restaurant development and for capital maintenance for existing restaurants will be approximately $8.5 million to $9.5 million for 2003. In addition the Company recorded in the third quarter of 2003 a capital building lease obligation in the amount of $375,000 in connection with one of the restaurants which will open in the fourth quarter.

The Company has periodically made, and may continue to make, purchases of its common stock under a repurchase program, under which the total authorized purchases are $2,000,000. From June 2001 through November 11, 2003, the Company repurchased approximately 535,000 shares at a cost of approximately $1,555,000. The Company generally does not repurchase shares following the end of its fiscal quarter until after results for the quarter have been publicly announced.

While a working capital deficit of $6,962,000 was present as of September 28, 2003, the Company does not believe this deficit impairs the overall financial condition of the Company because certain of the Company s expenses, particularly depreciation and amortization, do not require current outlays of cash. Also, requirements for funding accounts receivable and inventories are relatively insignificant, so that virtually all cash generated by operations is available to meet current obligations.

On May 12, 2003, the Company entered into a $5 million secured bank line of credit agreement which is available for financing capital expenditures related to the development of new restaurants and for general operating purposes. Provisions of the line of credit agreement require that a minimum fixed charge coverage ratio be maintained and that the Company s leverage ratio not exceed a specified level. The Company s ability to incur additional debt outside of the line of credit is also restricted. The line of credit is secured by the real estate of two of the Company s restaurant locations with an aggregate book value of $8,197,000 at September 28, 2003 and bears interest on the outstanding borrowings at the rate of LIBOR plus a spread of two to four percent, depending on the leverage ratio. The credit line expires on April 30, 2006, unless converted to a term loan prior to March 30, 2006 under the provisions of the agreement. Borrowings outstanding under this credit line were $500,000 at September 28, 2003.

Management believes that funds on hand at September 28, 2003, combined with cash flow from operations and borrowings available under the $5 million line of credit, will be adequate to meet its financing needs for 2003 and 2004. However, the Company may also consider other long-term financing sources, such as equipment leasing or financing, to supplement its existing credit arrangements.

As of November 10, 2003, the Company had no financing transactions, arrangements or other relationships with any unconsolidated affiliated entities or related parties. Additionally, the Company is not a party to any financing arrangements involving synthetic leases or trading activities involving commodity contracts.

CRITICAL ACCOUNTING POLICIES

The preparation of the Company s consolidated condensed financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the 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. On an ongoing basis, management evaluates its estimates and judgments, including those related to its accounting for income taxes, impairment of long-lived assets, contingencies and litigation. Management bases its estimates and judgments on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different results under different assumptions and conditions. Management believes the following critical accounting policies are those which involve the more significant judgments and estimates used in the preparation of its consolidated financial statements.

Income Taxes: The Company had $6,142,000 of gross deferred tax assets at December 29, 2002, consisting principally of $4,457,000 of tax credit carryforwards. Generally accepted accounting principles require that the Company record a valuation allowance against its

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deferred tax assets unless it is more likely than not that such assets will ultimately be realized.

Due to losses incurred by the Company from 1997 through 1999 and because the Company operates with a high degree of financial and operating leverage, with a significant portion of its costs being fixed or semi-fixed in nature, management was unable to conclude from 1997 through 2001 that it was more likely than not that its existing deferred tax assets would be realized; therefore, the Company maintained a valuation allowance for 100% of its deferred tax assets, net of deferred tax liabilities, for those years.

In 2002, the Company completed its third consecutive profitable year, with pre-tax income increasing significantly over the previous year. In addition the Company recorded significant increases in operating income in four of the last five years and has reached a size and experience level which make it less likely that any unsuccessful new restaurant would have a significant effect on consolidated operating results. Because of these factors, management further assessed the likelihood of realization of its deferred tax assets, using as its principal basis its forecast of future taxable income adjusted by applying varying probability factors to the achievement of this forecast. As the result of this assessment, the beginning of the year valuation allowance was reduced by $1,200,000 in the fourth quarter of 2002, with a corresponding credit to deferred income tax expense.

Failure to achieve forecasted taxable income could affect the ultimate realization of the net deferred tax assets. Because of the uncertainties discussed above, which are somewhat compounded by an uncertain geopolitical and economic environment, there can be no assurance that management s forecast of taxable income will be achieved and that there could not be an increase in the valuation allowance in the future. It is also possible that the Company could generate profitability and taxable income levels in the future which would cause management to conclude that it is more likely than not that the Company will realize all, or an additional portion of, its net deferred tax assets.

The Company will continue to evaluate the likelihood of realization of its net deferred tax assets and upon reaching any different conclusion as to the appropriate carrying value of these assets, management would adjust them to their estimated net realizable value. Any such revisions to the estimated net realizable value of the net deferred tax assets could cause the Company s provision for income taxes to vary significantly from period to period, although its cash tax payments would remain unaffected until the benefits of the various carryforwards were fully utilized.

In addition, certain other components of the Company s provision for income taxes must be estimated. These items include, but are not limited to, effective state tax rates, allowable tax credits for items such as FICA taxes paid on reported tip income, and estimates related to depreciation expense allowable for tax purposes. These estimates are made based on the best available information at the time the tax provision is prepared. Income tax returns are generally not filed, however, until several months after year-end. All tax returns are subject to audit by federal and state governments, usually years after the returns are filed, and could be subject to differing interpretations of the tax laws.

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Property and Equipment: Property and equipment are recorded at cost and depreciated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the asset s estimated useful life or the expected lease term, generally including renewal options. Improvements are capitalized while repairs and maintenance costs are expensed as incurred. Because significant judgments are required in estimating useful lives, which are not ultimately known until the passage of time and may be dependent on proper asset maintenance, and in the determination of what constitutes a capitalized cost versus a repair or maintenance expense, changes in circumstances or use of different assumptions could result in materially different results from those determined based on the Company s estimates.

Impairment of Long-Lived Assets: When events and circumstances indicate that long-lived assets most typically assets associated with a specific restaurant might be impaired, management compares the carrying value of such assets to the undiscounted cash flows it expects that restaurant to generate over its remaining useful life. In calculating its estimate of such undiscounted cash flows, management is required to make assumptions, which are subject to a high degree of judgment, relative to the restaurant s future period of operation, sales performance, cost of sales, labor, operating expenses and occupancy costs, which include property taxes, property and casualty insurance premiums and other similar costs associated with the restaurant s operation. The resulting forecast of undiscounted cash flows represents management s estimate based on both historical results and management s expectation of future operations for that particular restaurant. To date, all of the Company s long-lived assets have been determined to be recoverable based on management s estimates of future cash flows.

The above listing is not intended to be a comprehensive listing of all of the Company s accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management s judgment in their application. There are also areas in which management s judgment in selecting any available alternative would not produce a materially different result. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the fiscal year ended December 29, 2002, which contain accounting policies and other disclosures required by generally accepted accounting principles.

RISK FACTORS

In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company is including the following cautionary statements identifying important factors that could cause the Company s actual results to differ materially from those projected in forward looking statements of the Company made by, or on behalf of, the Company.

The Company Faces Challenges in Opening New Restaurants. The Company s continued growth depends on its ability to open new J. Alexander s restaurants and to operate them profitably, which will depend on a number of factors, including the selection and availability of suitable locations, the hiring and training of sufficiently skilled management and other personnel and other factors, some of which are beyond the control of the Company. In addition, it has been

the Company s experience that new restaurants generate operating losses while they build sales levels to maturity. The Company currently operates twenty-seven J. Alexander s restaurants, of which five have been open for less than three years. Because of the Company s relatively small J. Alexander s restaurant base, an unsuccessful new restaurant could have a more adverse effect on the Company s results of operations than would be the case in a restaurant company with a greater number of restaurants.

The Company Faces Intense Competition. The restaurant industry is intensely competitive with respect to price, service, location and food quality, and there are many well-established competitors with substantially greater financial and other resources than the Company. Some of the Company s competitors have been in existence for a substantially longer period than the Company and may be better established in markets where the Company s restaurants are or may be located. The restaurant business is often affected by changes in consumer tastes, national, regional or local economic conditions, demographic trends, traffic patterns and the type, number and location of competing restaurants.

The Company May Experience Fluctuations in Quarterly Results. The Company s quarterly results of operations are affected by timing of the opening of new J. Alexander s restaurants, and fluctuations in the cost of food, labor, employee benefits, and similar costs over which the Company has limited or no control. In addition, the Company typically incurs significant pre-opening costs when it opens a new restaurant and those costs are expensed in the periods immediately preceding the opening of the restaurant. The Company s business may also be affected by inflation. In the past, management has attempted to anticipate and avoid material adverse effects on the Company s profitability due to increasing costs through its purchasing practices and menu price adjustments, but there can be no assurance that it will be able to do so in the future.

Litigation Could Have a Material Adverse Effect on the Company s Business. From time to time the Company is the subject of complaints or litigation from guests alleging food-borne illness, injury or other food quality, health or operational concerns. In that regard, the Company has received complaints from certain guests at its Norcross, Georgia restaurant that they have either contracted a food-borne illness or experienced symptoms which they believe to be consistent with such an illness. The Company has fully cooperated with various governmental agencies at both the state and federal level in their investigations seeking the source of such illness at various restaurants in the area. At this point, the applicable agencies have stated that they believe that green onions purchased by numerous restaurants in the area are the most likely source. Such agencies have also stated that the source is not believed to be related to the operations within the applicable restaurants. Nevertheless, the risk exists that the Company may be subject to litigation (including costs and expenses incurred) or other adverse consequences (such as a possible decline in business at the affected restaurant) arising out of these complaints. The Company is also subject to complaints or allegations from current, former or prospective employees based on, among other things, wage discrimination, harassment or wrongful termination. Such claims could divert resources which would otherwise be used to improve the performance of the Company. A lawsuit or claim could also result in an adverse decision against the Company that could have a materially adverse effect on the Company s business.

The Company is also subject to state dram shop laws and regulations, which generally provide that a person injured by an intoxicated person may seek to recover damages from an establishment that wrongfully served alcoholic beverages to such person. While the Company carries liquor liability coverage as part of its existing comprehensive general liability insurance, the Company could be subject to a judgment in excess of its insurance coverage and might not be able to obtain or continue to maintain such insurance coverage at reasonable costs, or at all.

Changes in General Economic and Political Conditions Affect Consumer Spending and May Harm Revenues and Operating Results. Weak general economic conditions could decrease discretionary spending by consumers and could impact the frequency with which the Company s customers choose to dine out or the amount they spend on meals while dining out, thereby decreasing the Company s revenues. Additionally, continued military responses to the terrorist attacks on the United States, possible future terrorist attacks and other military conflict may impact current economic conditions and lead to a weakening of the economy. Adverse economic conditions and any related decrease in discretionary spending by the Company s customers could have an adverse effect on revenues and operating results.

The Company s Operating Strategy is Dependent on Providing Exceptional Food Quality and Outstanding Service. The Company s success depends largely upon its ability to attract, train, motivate and retain a sufficient number of qualified employees, including restaurant managers, kitchen staff and servers who can meet the high standards necessary to deliver the levels of food quality and service on which the J. Alexander s concept is based. Qualified individuals of the caliber and number needed to fill these positions are in short supply in some areas and competition for qualified employees could require the Company to pay higher wages to attract sufficient employees. Also, increases in employee turnover could have an adverse effect on food quality and guest service resulting in an adverse effect on revenues and results of operations.

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Significant Capital is Required to Develop New Restaurants. The Company s capital investment in its restaurants is relatively high as compared to some other casual dining companies. Failure of a new restaurant to generate satisfactory revenues and profits in relation to its investment could result in failure of the Company to achieve the desired financial return on the restaurant. Also, the Company has typically required capital beyond the cash flow provided from operations in order to expand, resulting in a significant amount of long-term debt and interest expense.

Government Regulation and Licensing May Delay New Restaurant Openings or Affect Operations. The restaurant industry is subject to extensive state and local government regulation relating to the sale of food and alcoholic beverages, and sanitation, fire and building codes. Termination of the liquor license for any J. Alexander s restaurant would adversely affect the revenues for the restaurant. Restaurant operating costs are also affected by other government actions that are beyond the Company s control, which may include increases in the minimum hourly wage requirements, workers compensation insurance rates and unemployment and other taxes. If the Company experiences difficulties in obtaining or fails to obtain required licensing or other regulatory approvals, this delay or failure could delay or prevent the opening of a new J. Alexander s restaurant. The suspension of, or inability to renew, a license could interrupt operations at an existing restaurant, and the inability to retain or renew such licenses would adversely affect the operations of the new restaurants.

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FORWARD-LOOKING STATEMENTS

In connection with the safe harbor established under the Private Securities Litigation Reform Act of 1995, the Company cautions investors that certain information contained in this Form 10-Q, particularly information regarding future economic performance and finances, development plans, and objectives of management is forward-looking information that involves risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied by forward-looking statements. The Company disclaims any intent or obligation to update these forward-looking statements. Factors which could affect actual results include, but are not limited to, the Company s ability to increase sales in certain of its restaurants; the number and timing of new restaurant openings; the Company s ability to recruit and train qualified restaurant management personnel; competition within the casual dining industry, which is very intense; changes in business and economic conditions; changes in consumer tastes; and government regulations. See Risk Factors included in this report for a description of a number of risks and uncertainties which could affect actual results.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

On May 12, 2003, the Company entered into a $5 million secured bank line of credit agreement which is available for financing capital expenditures related to the development of new restaurants and for general operating purposes. Borrowings outstanding under this line of credit totaled $500,000 at September 28, 2003. Provisions of the line of credit agreement require that a minimum fixed charge coverage ratio be maintained and that the Company s leverage ratio not exceed a specified level. The Company s ability to incur additional debt outside of the line of credit is also restricted. The line of credit is secured by the real estate of two of the Company s restaurant locations with an aggregate book value of $8,197,000 at September 28, 2003 and bears interest at the rate of LIBOR plus a spread of two to four percent, depending on the leverage ratio. The credit line expires on April 30, 2006, unless converted to a term loan prior to March 30, 2006 under the provisions of the agreement.

Aside from the factors noted above, there have been no material changes in the disclosures set forth in Item 7a of the Company s Annual Report on Form 10-K for the year ended December 29, 2002.

Item 4. Controls and Procedures

(a) *Evaluation of disclosure controls and procedures*. The Company s principal executive officer and principal financial officer have conducted an evaluation of the effectiveness of the Company s disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c)) as of the end of the period covered by this quarterly report. Based on that evaluation, the Company s principal executive officer and principal financial officer concluded that, as of the end of the period covered by this quarterly report, the Company s disclosure controls and procedures were adequate and effective to ensure that material information relating to the Company and its consolidated subsidiaries is communicated to the Company s management, including its principal executive officer and principal financial officer, to allow timely decisions regarding required disclosures.

(b) Changes in internal controls. There were no significant changes in the Company s internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

Exhibit 4(a)	First Amendment to Stock Purchase and Standstill Agreement.
Exhibit 31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) On October 27, 2003, the Company filed a Form 8-K under Item 12 related to its press release announcing third quarter earnings results.

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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.

	J. ALEXANDER S CORPORATION
Date: November 10, 2003	/s/ Lonnie J. Stout II
	Lonnie J. Stout II Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date: November 10, 2003	/s/ R. Gregory Lewis
	R. Gregory Lewis Vice-President and Chief Financial Officer (Principal Financial Officer)

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