

ALEXANDERS J CORP  
Form 10-Q  
November 14, 2007

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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 September 30, 2007

**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)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 6,647,825 shares at November 13, 2007.

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	<b>September 30 2007</b>	December 31 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 10,504	\$ 14,688
Accounts and notes receivable	1,905	2,252
Inventories	1,167	1,319
Deferred income taxes	1,079	1,079
Prepaid expenses and other current assets	1,076	1,192
<b>TOTAL CURRENT ASSETS</b>	<b>15,731</b>	20,530
<b>OTHER ASSETS</b>	<b>1,298</b>	1,249
<b>PROPERTY AND EQUIPMENT</b> , at cost, less accumulated depreciation and amortization of \$44,515 and \$41,911 at September 30, 2007 and December 31, 2006, respectively	<b>78,177</b>	71,815
<b>DEFERRED INCOME TAXES</b>	<b>5,055</b>	5,055
<b>DEFERRED CHARGES</b> , less accumulated amortization	<b>705</b>	701
	<b>\$ 100,966</b>	\$ 99,350

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	<b>September 30 2007</b>	December 31 2006
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 5,365	\$ 4,962
Accrued expenses and other current liabilities	3,755	5,464
Unearned revenue	1,446	2,348
Current portion of long-term debt and obligations under capital leases	937	889
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,503</b>	13,663
<b>LONG-TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES, net of portion classified as current</b>	<b>21,597</b>	22,304
<b>OTHER LONG-TERM LIABILITIES</b>	<b>5,995</b>	5,553
<b>STOCKHOLDERS EQUITY</b>		
Common Stock, par value \$.05 per share: Authorized 10,000,000 shares; issued and outstanding 6,639,315 and 6,569,305 shares at September 30, 2007 and December 31, 2006, respectively	332	329
Preferred Stock, no par value: Authorized 1,000,000 shares; none issued		
Additional paid-in capital	35,575	34,905
Retained earnings	25,964	22,596
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>61,871</b>	57,830
	<b>\$ 100,966</b>	\$ 99,350

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	
	Sept. 30 2007	Oct. 1 2006	Sept. 30 2007	Oct. 1 2006
Net sales	\$ 33,356	\$ 32,891	\$ 104,623	\$ 101,470
Costs and expenses:				
Cost of sales	10,945	10,918	33,938	33,221
Restaurant labor and related costs	11,068	10,764	33,430	32,573
Depreciation and amortization of restaurant property and equipment	1,304	1,308	3,881	3,913
Other operating expenses	6,736	6,620	20,571	20,084
Total restaurant operating expenses	30,053	29,610	91,820	89,791
General and administrative expenses	2,264	2,343	7,074	7,222
Pre-opening expense	537		593	
Operating income	502	938	5,136	4,457
Other income (expense):				
Interest expense, net	(279)	(391)	(871)	(1,216)
Other, net	17	16	55	67
Total other expense	(262)	(375)	(816)	(1,149)
Income before income taxes	240	563	4,320	3,308
Income tax benefit (provision)	150	(127)	(952)	(724)
Net income	\$ 390	\$ 436	\$ 3,368	\$ 2,584
Basic earnings per share	\$ .06	\$ .07	\$ .51	\$ .39
Diluted earnings per share	\$ .06	\$ .06	\$ .48	\$ .38

See notes to condensed consolidated financial statements.

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

	Nine Months Ended	
	<b>Sept. 30</b>	Oct. 1
	<b>2007</b>	2006
Net cash provided by operating activities:		
Net income	<b>\$ 3,368</b>	\$ 2,584
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	<b>3,939</b>	3,979
Changes in working capital accounts	<b>(1,985)</b>	(692)
Other operating activities	<b>786</b>	660
	<b>6,108</b>	6,531
Net cash used in investing activities:		
Purchase of property and equipment	<b>(8,342)</b>	(2,520)
Other investing activities	<b>(46)</b>	(70)
	<b>(8,388)</b>	(2,590)
Net cash used in financing activities:		
Payments on debt and obligations under capital leases	<b>(659)</b>	(610)
Decrease in bank overdraft	<b>(1,113)</b>	(1,354)
Payment of cash dividend	<b>(657)</b>	(653)
Exercise of stock options	<b>379</b>	140
Payment of required withholding taxes on behalf of an employee in connection with the net share settlement of an employee stock option exercised	<b>(101)</b>	
Excess tax benefit related to share-based compensation	<b>247</b>	
Other		2
	<b>(1,904)</b>	(2,475)
(Decrease) increase in cash and cash equivalents	<b>(4,184)</b>	1,466
Cash and cash equivalents at beginning of period	<b>14,688</b>	8,200
Cash and cash equivalents at end of period	<b>\$ 10,504</b>	\$ 9,666
Supplemental disclosures of non-cash items:		
Property and equipment obligations accrued at beginning of period	<b>\$ 123</b>	\$ 550
Property and equipment obligations accrued at end of period	<b>\$ 2,285</b>	\$ 348
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 2007 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 30, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 30, 2007. 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 December 31, 2006.

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

**NOTE B EARNINGS PER SHARE**

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

	Quarter Ended		Nine Months Ended	
	Sept. 30 2007	Oct. 1 2006	Sept. 30 2007	Oct. 1 2006
<b>Numerator:</b>				
Net income (numerator for basic and diluted earnings per share)	\$ 390,000	\$ 436,000	\$ 3,368,000	\$ 2,584,000
<b>Denominator:</b>				
Weighted average shares (denominator for basic earnings per share)	6,639,000	6,559,000	6,607,000	6,545,000
Effect of dilutive securities	380,000	285,000	369,000	289,000
Adjusted weighted average shares (denominator for diluted earnings per share)	7,019,000	6,844,000	6,976,000	6,834,000
Basic earnings per share	\$ .06	\$ .07	\$ .51	\$ .39
Diluted earnings per share	\$ .06	\$ .06	\$ .48	\$ .38

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The calculations of diluted earnings per share exclude stock options for the purchase of 305,000 shares and 110,000 shares of the Company's common stock for the quarters ended September 30, 2007 and October 1, 2006, respectively, because the effect of their inclusion would be anti-dilutive. Anti-dilutive options to purchase 202,000 and 208,000 shares of common stock were excluded from the diluted earnings per share calculation for the nine months ended September 30, 2007 and October 1, 2006, respectively.

**NOTE C INCOME TAXES**

In 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, Accounting for Uncertainties in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ), which clarified the accounting and disclosure for uncertainty in income tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company was subject to the provisions of FIN 48 as of January 1, 2007, and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions.

Periods subject to examination for the Company's federal return are the 2004 through 2006 tax years. The periods subject to examination for the Company's state returns are the tax years 2003 through 2006.

The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48.

The Company's accounting policy with respect to interest and penalties arising from income tax settlements is to recognize them as part of the provision for income taxes. There were no interest or penalty amounts accrued as of January 1, 2007.

The Company's income tax provision for the first nine months of 2007 is based on an estimated effective tax rate of 23.3% for the fiscal year and also includes a favorable adjustment of \$55,000 which represents a discrete item recorded in connection with the finalization of tax matters upon filing of the Company's income tax returns for 2006. The income tax provision for the first nine months of 2006 was based on an estimated effective tax rate of 24.0% for fiscal 2006, adjusted for a favorable discrete item of \$67,000 related to correction of a prior year's federal income tax return. These rates are lower than the statutory federal income tax rate of 34% due primarily to the effect of FICA tip tax credits, with the effect of those credits being partially offset by the effect of state income taxes. Because the current estimated effective rate for 2007 is lower than the estimated rate applied to the first two quarters of the year, an income tax benefit was recorded in the third quarter to adjust the year-to-date amount. The third quarter income tax benefit also includes a favorable adjustment of \$43,000 related to the discrete item noted above.

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Stock-based compensation expense totaled \$85,000 and \$17,000 for the quarters ended September 30, 2007 and October 1, 2006, respectively, and \$148,000 and \$73,000 for the nine-month periods ended September 30, 2007 and October 1, 2006, respectively. At September 30, 2007, the Company had \$1,150,000 of unrecognized compensation cost related to share-based payments which is expected to be recognized over the remaining weighted average vesting period of approximately 3.6 years.

Stock option activity during the first nine months of 2007 was as follows:

	Shares of Common Stock	Weighted Average Exercise Price	Weighted Avg. Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding at December 31, 2006	900,960	\$ 5.76		
Granted	305,000	\$ 14.19		
Exercised	(77,600)	\$ 4.89		
Expired or cancelled	(38,000)	\$ 8.64		
Outstanding at September 30, 2007	1,090,360	\$ 8.08	5.5	\$5,818,000
Exercisable at September 30, 2007	709,360	\$ 5.44	4.6	\$5,443,000

The total intrinsic value of options exercised was \$9,000 and \$646,000 for the quarter and nine-month periods ended September 30, 2007 compared to \$111,000 and \$183,000, respectively, for the quarter and nine-month periods ended October 1, 2006. At September 30, 2007, a total of 146,169 shares were available for future grant.

The weighted-average estimated fair values of options granted, and the related assumptions used in the Black-Scholes option pricing model to determine those values, were as set forth below for the indicated periods:

	Quarter Ended		Nine Months Ended	
	Sept. 30, 2007	Oct. 1, 2006	Sept. 30, 2007	Oct. 1, 2006
Dividend yield	0.75%	1.15%	0.76%	1.22%
Volatility factor	.3388	.3945	.3128	.4001
Risk-free interest rate	4.62%	5.07%	4.55%	4.56%
Expected life of options (in years)	5.5	10.0	4.7	6.4
Weighted-average grant date fair value	\$ 4.91	\$ 4.39	\$ 3.86	\$ 3.43

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As a result of the disposition of its Wendy's restaurant operations in 1996, the Company remains secondarily liable for certain real property leases with remaining terms of one to eight years. The total estimated amount of lease payments remaining on these 17 leases at September 30, 2007 was approximately \$2.6 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 23 leases at September 30, 2007, was approximately \$900,000. 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 September 30, 2007, was approximately \$800,000.

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 F RECENT ACCOUNTING PRONOUNCEMENTS**

In 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its 2008 Consolidated Financial Statements.

In February of 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument by instrument basis which are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. This statement is effective as of the beginning of a company's first fiscal year after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159 on its 2008 Consolidated Financial Statements.

In 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the Company recognize the impact of a tax position in the Company's financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 became effective as of the beginning of the Company's 2007 fiscal year and had no impact on the Company's Condensed Consolidated Financial Statements upon adoption. See Note C Income Taxes for further discussion of the Company's adoption of FIN 48.

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

**Overview**

J. Alexander's Corporation (the Company) operates upscale casual dining restaurants. At September 30, 2007, the Company operated 28 J. Alexander's restaurants in 12 states. The Company's net sales are derived primarily from the sale of food and alcoholic beverages in its restaurants, including sales recorded upon redemption of gift cards sold by the Company.

The Company's strategy is for J. Alexander's restaurants to compete in the restaurant industry by providing guests with outstanding professional service, high-quality food, and an attractive environment with an upscale, high-energy ambiance. Quality is emphasized throughout J. Alexander's operations and substantially all menu items are prepared on the restaurant premises using fresh, high-quality ingredients. The Company's goal is for each J. Alexander's restaurant to be perceived by guests in its market as a market leader in each of the categories above. J. Alexander's restaurants offer a contemporary American menu designed to appeal to a wide range of consumer tastes. The Company believes, however, that its restaurants are most popular with more discriminating guests with higher discretionary incomes. J. Alexander's typically does not advertise in the media and relies on each restaurant to increase sales by building its reputation as an outstanding dining establishment. The Company has generally been successful in achieving sales increases in its restaurants over time using this strategy.

The restaurant industry is highly competitive and is often affected by changes in consumer tastes and discretionary spending patterns; changes in general economic conditions; public safety conditions or concerns; demographic trends; weather conditions; the cost of food products, labor and energy; and governmental regulations. Because of these factors, the Company's management believes it is of critical importance to the Company's success to effectively execute the Company's operating strategy and to constantly evolve and refine the critical conceptual elements of J. Alexander's restaurants in order to distinguish them from other casual dining competitors and maintain the Company's competitive position.

The restaurant industry is also characterized by high capital investment for new restaurants and relatively high fixed or semi-variable restaurant operating expenses. Because a significant portion of restaurant operating expenses are fixed or semi-variable in nature, incremental sales in existing restaurants are generally expected to make a significant contribution to restaurant profitability because many restaurant costs and expenses are not expected to increase at the same rate as sales. Improvements in profitability resulting from incremental sales growth can be negatively affected, however, by inflationary increases in operating costs and other factors. Management believes that excellence in restaurant operations, and particularly providing exceptional guest service, will increase net sales in the Company's existing restaurants over time and will support menu pricing levels which allow the Company to achieve reasonable operating margins while absorbing the higher costs of providing high-quality dining experiences and operating cost increases.

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Incremental sales for existing restaurants are generally measured in the restaurant industry by computing the same store sales increase, which represents the increase in sales for the same group of restaurants for comparable reporting periods. Same store sales increases can be generated by increases in guest counts, which the Company estimates based on a count of entrée items sold, and increases in the average check per guest. The average check per guest can be affected by menu price changes and the mix of menu items sold. Management regularly analyzes guest count, average check and product mix trends for each restaurant in order to improve menu pricing and product offering strategies. Management believes it is important to maintain or increase guest counts and average guest checks over time in order to improve the Company's profitability.

Other key indicators which can be used to evaluate and understand the Company's restaurant operations include cost of sales, restaurant labor and related costs and other operating expenses, with a focus on these expenses as a percentage of net sales. Since the Company uses primarily fresh ingredients for food preparation, the cost of food commodities can vary significantly from time to time due to a number of factors. The Company generally expects to increase menu prices in order to offset the increase in the cost of food products as well as increases which the Company experiences in labor and related costs and other operating expenses, but attempts to balance these increases with the goals of providing reasonable value to the Company's guests and maintaining same store sales growth. Management believes that restaurant operating margin, which represents net sales less total restaurant operating expenses expressed as a percentage of net sales, is an important indicator of the Company's success in managing its restaurant operations because it is affected by same store sales growth, menu pricing strategy, and the management and control of restaurant operating expenses in relation to net sales.

The opening of new restaurants by the Company can have a significant impact on the Company's financial performance. Because pre-opening costs for new restaurants are significant and most new restaurants incur operating losses during their early months of operation, the number of restaurants opened or under development in a particular year can have a significant impact on the Company's operating results.

Because large capital investments are required for J. Alexander's restaurants and because a significant portion of labor costs and other operating expenses are fixed or semi-variable in nature, management believes the sales required for a J. Alexander's restaurant to break even are relatively high compared to many other casual dining concepts and that it is necessary for the Company to achieve relatively high sales volumes in its restaurants in order to achieve desired financial returns. 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 attractive financial returns on the Company's investments in new restaurants. The Company opened a new restaurant in Atlanta, Georgia on October 1, 2007, will open in Palm Beach Gardens, Florida in November of 2007 and expects to open three new restaurants in 2008.

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:

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	Quarter Ended		Nine Months Ended	
	Sept. 30 2007	Oct. 1 2006	Sept. 30 2007	Oct. 1 2006
Net sales	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of sales	32.8	33.2	32.4	32.7
Restaurant labor and related costs	33.2	32.7	32.0	32.1
Depreciation and amortization of restaurant property and equipment	3.9	4.0	3.7	3.9
Other operating expenses	20.2	20.1	19.7	19.8
Total restaurant operating expenses	90.1	90.0	87.8	88.5
General and administrative expenses	6.8	7.1	6.8	7.1
Pre-opening expense	1.6		0.6	
Operating income	1.5	2.9	4.9	4.4
Other income (expense):				
Interest expense, net	(0.8)	(1.2)	(0.8)	(1.2)
Other, net	0.1		0.1	0.1
Total other expense	(0.8)	(1.1)	(0.8)	(1.1)
Income before income taxes	0.7	1.7	4.1	3.3
Income tax benefit (provision)	0.4	(0.4)	(0.9)	(0.7)
Net income	1.2%	1.3%	3.2%	2.5%
<i>Note: Certain percentage totals do not sum due to rounding.</i>				
Restaurants open at end of period	28	28		
Weighted average weekly sales per restaurant (1):				
All restaurants	\$ 91,500	\$ 90,300	\$ 95,700	\$ 92,800
Percent increase	+1.3%		+3.1%	
Same store restaurants (2)	\$ 91,500	\$ 90,300	\$ 95,500	\$ 92,500
Percent increase	+1.3%		+3.2%	