ALEXANDERS J CORP
Form 10-Q
November 10, 2004

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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 26, 2004

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 [X] 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 [X]

Common Stock Outstanding 6,453,199 shares at November 9, 2004.

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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)

	September 26 2004	December 28 2003
		(Restated)
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 3,487**	$ 1,635
Accounts and notes receivable	**57**	589
Inventories	**1,089**	1,068
Deferred income taxes	**791**	791
Prepaid expenses and other current assets	**817**	1,050
TOTAL CURRENT ASSETS	**6,241**	5,133
OTHER ASSETS	**1,089**	1,009
PROPERTY AND EQUIPMENT, at cost, less allowances for depreciation and amortization of $32,881 and $29,931 at September 26, 2004, and December 28, 2003, respectively	**71,942**	73,613
DEFERRED INCOME TAXES	**1,884**	1,884
DEFERRED CHARGES, less amortization	**822**	898
	$ 81,978	$ 82,537

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	September 26 2004	December 28 2003
		(Restated)
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 2,162**	$ 3,194
Accrued expenses and other current liabilities	**3,638**	4,177
Unearned revenue	**1,868**	2,871
Current portion of long-term debt and obligations under capital leases	**774**	649
TOTAL CURRENT LIABILITIES	**8,442**	10,891
LONG-TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES, net of portion classified as current	**24,215**	24,642
OTHER LONG-TERM LIABILITIES	**2,978**	2,572
STOCKHOLDERS EQUITY		
Common Stock, par value $.05 per share: Authorized 10,000,000 shares; issued and outstanding 6,453,199 and 6,432,718 shares at September 26, 2004, and December 28, 2003, respectively	**323**	322
Preferred Stock, no par value: Authorized 1,000,000 shares; none issued		
Additional paid-in capital	**34,265**	34,197
Retained earnings	**12,596**	10,807
	47,184	45,326
Note receivable - Employee Stock Ownership Plan	**(370)**	(370)
Employee notes receivable - 1999 Loan Program	**(471)**	(524)
TOTAL STOCKHOLDERS EQUITY	**46,343**	44,432
	$ 81,978	$ 82,537

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. 26 2004	**Sept. 28 2003**	**Sept. 26 2004**	**Sept. 28 2003**
		(Restated)		**(Restated)**
Net sales	**$28,794**	$25,832	**$89,430**	$78,697
Costs and expenses:				
Cost of sales	**9,742**	8,418	**30,137**	25,345
Restaurant labor and related costs	**9,374**	8,519	**28,360**	25,751
Depreciation and amortization of restaurant property and equipment	**1,162**	1,065	**3,460**	3,201
Other operating expenses	**5,662**	4,814	**16,890**	14,332
Total restaurant operating expenses	**25,940**	22,816	**78,847**	68,629
General and administrative expenses	**1,922**	2,175	**6,288**	6,217
Pre-opening expense		236		526
Operating income	**932**	605	**4,295**	3,325
Other income (expense):				
Interest expense, net	**(518)**	(500)	**(1,574)**	(1,594)
Other, net	**(27)**	18	**(90)**	(19)
Total other expense	**(545)**	(482)	**(1,664)**	(1,613)
Income before income taxes	**387**	123	**2,631**	1,712
Income tax (provision) benefit	**(122)**	55	**(842)**	(510)
Net income	**$ 265**	$ 178	**$ 1,789**	$ 1,202
Earnings per share:				
Basic earnings per share	**$ .04**	$ .03	**$ .28**	$ .18
Diluted earnings per share	**$ .04**	$ .03	**$ .26**	$ .18

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	
	Sept. 26 2004	**Sept. 28 2003**
Net cash provided by operating activities	**$ 3,943**	$ 3,309
Net cash used by investing activities:		
Purchase of property and equipment	**(1,824)**	(6,279)
Other investing activities	**(69)**	(68)
	(1,893)	(6,347)
Net cash (used) provided by financing activities:		
Payments on debt and obligations under capital leases	**(566)**	(6,647)
Proceeds from equipment financing note	**750**	
Proceeds under bank line of credit agreement	**408**	3,200
Payments under bank line of credit agreement	**(894)**	(2,700)
Common stock repurchased		(848)
Reduction of employee notes receivable - 1999 Loan Program	**53**	158
Other	**52**	92
	(197)	(6,745)
Increase (decrease) in cash and cash equivalents	**1,852**	(9,783)
Cash and cash equivalents at beginning of period	**1,635**	10,525
Cash and cash equivalents at end of period	**$ 3,487**	$ 742
Supplemental disclosures of non-cash items:		
Property and equipment obligations accrued at beginning of period	**$ 375**	$ 1,020
Property and equipment obligations accrued at end of period	**$ 55**	$ 1,745
Additions to buildings and obligations under capital lease	**$**	$ 375

See notes to condensed consolidated financial statements

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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 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 condensed consolidated financial statements to conform to the 2004 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 26, 2004, are not necessarily indicative of the results that may be expected for the fiscal year ending January 2, 2005. 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/A for the fiscal year ended December 28, 2003.

The accompanying condensed consolidated balance sheet at December 28, 2003 has been restated to reflect an increase in additional paid-in capital and a decrease in retained earnings of $552,000 due to a determination by the Company in 2004 that a stock option grant, which previously had been accounted for as a fixed award, should have been accounted for as a variable award. The accompanying condensed consolidated statements of income for the third quarter and nine months ended September 28, 2003 have been restated to reflect additional general and administrative expense of $207,000 and $329,000, respectively, with corresponding decreases in net income, related to this option grant. Diluted earnings per share were reduced by $.03 for the third quarter and by $.05 for the first nine months of 2003 as a result of the non-cash compensation expense associated with this option grant. There was no impact on the condensed consolidated statement of cash flows for the nine months ended September 28, 2003 as a result of this change.

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. 26 2004	**Sept. 28 2003**	**Sept. 26 2004**	**Sept. 28 2003**
		(Restated)		**(Restated)**
(In thousands, except per share amounts)				
Numerator:				
Net income (numerator for basic earnings per share)	**$265**	$ 178	**$1,789**	$ 1,202
Effect of dilutive securities				
Net income after assumed conversions (numerator for diluted earnings per share)	**$265**	$ 178	**$1,789**	$ 1,202

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	Quarter Ended		Nine Months Ended	
	Sept. 26 2004	Sept. 28 2003	Sept. 26 2004	Sept. 28 2003
		(Restated)		(Restated)
Denominator:				
Weighted average shares (denominator for basic earnings per share	**6,450**	6,424	**6,443**	6,504
Effect of dilutive securities:				
Employee stock options	**326**	208	**341**	123
Adjusted weighted average shares and assumed conversions (denominator for diluted earnings per share)	**6,776**	6,632	**6,784**	6,627
Basic earnings per share	**$ .04**	$ .03	**$ .28**	$ .18
Diluted earnings per share	**$ .04**	$ .03	**$ .26**	$ .18

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 26, 2004, options to purchase 149,000 shares of common stock were excluded from the computation of diluted earnings per share due to their antidilutive effect. During the corresponding period of 2003, options to purchase 206,000 shares of common stock were similarly excluded from the computation of diluted earnings per share.

For the nine months ended September 26, 2004 and September 28, 2003, respectively, options to purchase 128,000 and 350,000 shares of common stock were excluded from the diluted earnings per share calculation.

NOTE C INCOME TAXES

The Company s provisions for income taxes for the third quarters and first nine months are based on estimated effective annual income tax rates which include estimates of both federal alternative minimum tax (AMT) and state income taxes payable. Estimated federal AMT included in the tax rate calculation is computed by applying the AMT rate to the Company s estimated pre-tax accounting income for the year after adding back certain tax preference items, as well as certain permanent differences and timing differences in book and tax income.

Because of current AMT regulations, the Company is presently unable to take full advantage of certain tax carryforward benefits it has accumulated. Also, because the Company maintains a valuation allowance on a portion of its deferred tax assets, no direct benefit is recognized in the income tax provisions with respect to the AMT credit carryforwards or other tax assets generated.

The Company s federal income tax returns for fiscal years 2001 and 2002 are currently under examination by the Internal Revenue Service. Any adjustments resulting from this examination are not expected to have a material effect on the Company s consolidated financial condition.

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NOTE D LONG-TERM DEBT

In January 2004, the Company obtained $750,000 of long-term equipment financing. The note payable related to the financing has an interest rate of 4.97% and is payable in equal monthly installments of principal and interest of approximately $14,200 through January, 2009. The note payable is secured by restaurant equipment at one of the Company s restaurants.

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. 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 (see Note A). The Company s board of directors fixed the exercise price of this option at $3.94 on May 25, 2004. As a result, under current accounting rules, no additional compensation expense will be recognized with respect to this option grant. Compensation expense of $18,000 was recognized in connection with this option in the first nine months of 2004. Compensation expense of $207,000 was recognized for the third quarter of 2003 and $329,000 for the first nine months of 2003 in connection with the option.

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	
	Sept. 26 2004	**Sept. 28 2003**	**Sept. 26 2004**	**Sept. 28 2003**
		(Restated)		**(Restated)**
(In thousands, except per share amounts)				
Net income, as reported	**$265**	$ 178	**$1,789**	$ 1,202
Add: Compensation expense related to variable stock option award, net of related tax effects		207	**18**	329
Deduct: Stock-based employee compensation expense determined under a fair value method for all awards, net of related tax effects	**(31)**	(29)	**(82)**	(66)
Pro forma net income	**$234**	$ 356	**$1,725**	$ 1,465

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	Quarter Ended		Nine Months Ended	
	Sept. 26 2004	Sept. 28 2003	Sept. 26 2004	Sept. 28 2003
		(Restated)		(Restated)
Net income per share:				
Basic, as reported	**$ .04**	$ .03	**$ .28**	$ .18
Basic, pro forma	**$ .04**	$ .06	**$ .27**	$ .23
Diluted, as reported	**$ .04**	$ .03	**$ .26**	$ .18
Diluted, pro forma	**$ .03**	$ .05	**$ .25**	$ .22
Weighted average shares used in computation:				
Basic	**6,450**	6,424	**6,443**	6,504
Diluted	**6,776**	6,632	**6,784**	6,627

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 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 twelve years. The total estimated amount of lease payments remaining on these 28 individual leases at September 26, 2004 was approximately $4.4 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 29 individual leases at September 26, 2004, was approximately $3.3 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 individual leases as of September 26, 2004, was approximately $1.5 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. The lawsuit seeks to compensate those applicants who were allegedly harmed by the Company s practices, seeks injunctive relief against the Company to prevent it from engaging in such practices, and requests that the Company implement and carry out policies which provide equal employment opportunities for male applicants for employment so that the alleged unlawful employment practices would be eradicated. In October of 2004 suit was brought in the United States District Court for the Northern District of Georgia by a former employee of the Company who alleged violation of his civil

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rights under the Americans With Disabilities Act of 1990 (ADA) for failing to exercise reasonable accommodation for his disability, for terminating and retaliating against him because of his disability and because he exercised his rights under the ADA, and for disclosing his disabilities to others without his consent. The suit seeks compensation and punitive damages for the plaintiff in unspecified amounts, injunctive relief prohibiting the Company from engaging in disability discrimination under the ADA, and an order that the Company institute and carry out policies, practices and programs to provide equal employment opportunity. The Company denies all liability with respect to both of these claims, believes they are without merit and intends to defend them vigorously. The Company has not provided for any potential liability with respect to these claims and it does not currently believe they will have a material adverse effect on its financial condition. However, the Company could incur or accrue expenses relating to these matters which could materially adversely affect its results of operations and there exists the risk that an adverse judgment in these claims, the amount of which cannot be estimated, could have a material adverse effect on the Company s financial condition or results of operations.

In addition to the litigation described in the preceding paragraph, the Company is from time to time subject to routine litigation incidental to its business. The Company believes that the results of such additional legal proceedings will not have a material adverse effect on the Company s financial condition or results of operations.

NOTE G SHAREHOLDER RIGHTS PLAN

Effective May 12, 2004, the Company s Board of Directors amended the Company s existing shareholder rights plan by extending the final expiration date to May 16, 2009.

NOTE H SUBSEQUENT EVENT

In the fourth quarter of 2004, the Company received payment of $380,000 as settlement for the taking through condemnation proceedings initiated in 2001 of a portion of the property of one of its restaurant locations. A gain of approximately $117,000 will be recognized in the fourth quarter of 2004 in connection with this settlement.

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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) owns and operates high volume, upscale casual dining restaurants which offer a contemporary American menu designed to appeal to a wide variety of tastes. Special emphasis is placed on high quality food, professional service and attractive ambiance. At September 26, 2004, the Company owned and operated 27 J. Alexander s restaurants in 12 states.

Same store sales increase, which excludes the effect of newer restaurants, is a measure commonly used in the restaurant industry and one which the Company s management believes is an important factor in assessing the performance of the Company s restaurant operations. The Company experienced strong same store sales increases throughout the first nine months of 2004, with weekly average same store sales increasing for the third quarter and first nine months of the year by 7.2% and 7.7%, respectively, over the same periods of the previous year. Management attributes these increases to continued emphasis on providing high quality food and professional service, a generally favorable economic and restaurant industry environment and to the effect of menu price increases. Guest counts on a same store basis increased during the first six months of 2004 compared to the same period of 2003, but decreased somewhat in the third quarter.

The Company continued to experience significantly higher costs for food during 2004 due to significant increases in input costs in virtually all categories of food purchases. The Company did not increase menu prices significantly during 2003. However, in order to offset at least a portion of the cost of sales increases the Company is experiencing, menu prices were increased by approximately 3% in March of 2004, by approximately 1.5% in the second quarter of 2004, and by less than 1% in the third quarter of 2004. While there was some moderation in dairy and poultry prices during the third quarter of 2004, management expects input costs for many major food items purchased by the Company to remain higher than in the fourth quarter of 2003. Management is considering additional menu price increases to further offset the effect of higher food costs, but remains sensitive to the possible effect of menu price increases on guest counts. Same store sales increases subsequent to the third quarter have remained positive and the outlook for continued improvement in sales remains generally favorable. However, guest counts on a same store basis remained down in October of 2004 compared to the same period of the previous year and there can be no assurance that this trend will not continue or worsen or that sales will not be negatively affected by menu price increases or other factors.

Sales of the Company s two newest restaurants opened in the fourth quarter of 2003 continue to fall considerably below expectations and, as a result, each posted significant operating losses for each of the first three quarters of 2004. Operating results for these restaurants are not expected to improve appreciably until their sales increase significantly. While management is confident in its ability to build sales in these locations over time, as has generally been the case with the Company s other low volume locations, its current expectation is that this will be a slow process for these restaurants. While no new restaurants are currently under construction or planned to open in 2004, the Company generally intends to maintain a new restaurant development rate of one to two new

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restaurants per year to allow management to focus intently on improving sales and profits in all of its restaurants while maintaining its pursuit of operational excellence.

Income before income taxes increased by $264,000 for the third quarter of 2004 and by $919,000 for the first nine months compared to the same periods of 2003. Net income increased by $87,000 for the third quarter and by $587,000 for the first nine months of 2004 compared to the corresponding 2003 periods. Compensation expense recognized in connection with a stock option grant discussed under general and administrative expenses below was $207,000 less for the third quarter and $311,000 less for the first nine months of 2004 than for the corresponding periods of 2003. Also, a reduction in pre-opening expenses aided the comparisons of income before income taxes as the Company incurred $236,000 and $526,000 of pre-opening expenses for the third quarter and first nine months of 2003, respectively, but had no pre-opening expense in 2004.

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

	Quarter Ended		**Nine Months Ended**	
	Sept. 26 2004	**Sept. 28 2003**	**Sept. 26 2004**	**Sept. 28 2003**
		(Restated)		**(Restated)**
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Costs and expenses:				
Cost of sales	**33.8**	32.6	**33.7**	32.2
Restaurant labor and related costs	**32.6**	33.0	**31.7**	32.7
Depreciation and amortization of restaurant property and equipment	**4.0**	4.1	**3.9**	4.1
Other operating expenses	**19.7**	18.6	**18.9**	18.2
Total restaurant operating expenses	**90.1**	88.3	**88.2**	87.2
General and administrative expenses	**6.7**	8.4	**7.0**	7.9
Pre-opening expense		0.9		0.7
Operating income	**3.2**	2.3	**4.8**	4.2
Other income (expense):				
Interest expense, net	**(1.8)**	(1.9)	**(1.8)**	(2.0)
Other, net	**(0.1)**	0.1	**(0.1)**	
Total other expense	**(1.9)**	(1.9)	**(1.9)**	(2.0)
Income before income taxes	**1.3**	0.5	**2.9**	2.2
Income tax (provision) benefit	**(0.4)**	0.2	**(0.9)**	(0.6)

Net income	**0.9%**	0.7%	**2.0%**	1.5%

Note: Certain percentage totals do not sum due to rounding.

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	Quarter Ended		Nine Months Ended	
	Sept. 26 2004	**Sept. 28 2003**	**Sept. 26 2004**	**Sept. 28 2003**
		(Restated)		**(Restated)**
Restaurants open at end of period	27	25		
Weighted average weekly sales per restaurant:				
All restaurants	$**82,600**	$79,500	$**85,000**	$81,300
Same store restaurants	$**85,400**	$79,700	$**87,800**	$81,500

Net Sales

Net sales increased by $2,962,000, or 11.5%, and $10,733,000, or 13.6%, for the third quarter and first nine months of 2004, respectively, as compared to the same periods of 2003. These increases were attributable to three new restaurants opened in 2003 and to sales increases within the Company s same store restaurant base. The Company estimates that approximately $300,000 in sales were lost in the third quarter of 2004 due to the hurricanes and severe weather which affected the Southeastern United States during that period.

Same store sales on a base of 24 restaurants averaged $85,400 and $87,800 per week during the third quarter and nine months ended September 26, 2004, representing increases of 7.2% and 7.7% compared to the same periods of 2003. The Company s weighted average weekly sales per restaurant are computed 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 the 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 of each year, 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. Weighted average weekly sales per restaurant are lower than the same store weekly average per restaurant because of the effect of lower sales volumes of the Company s newer restaurants on the weighted average. Same store sales increases computed without adjustment for the days the Company s restaurants were closed in 2003 and 2004 were 6.3% and 7.5% for the third quarter and first nine months of 2004, respectively.

Management estimates the average check per guest, excluding alcoholic beverage sales, was approximately