

ALEXANDERS J CORP  
Form 10-Q  
November 16, 2005

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

**(Mark One)**

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

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

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_.**

**Commission file number 1-8766**

**J. ALEXANDER S CORPORATION**

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

Tennessee

62-0854056

(State or other jurisdiction of incorporation or organization)

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

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

(Address of principal executive offices)

(Zip Code)

(615)269-1900

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).

Yes  No

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

Yes  No

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

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

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.

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

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

See notes to condensed consolidated financial statements.



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

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

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

**NOTE B ACCOUNTS RECEIVABLE**

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

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

**NOTE C CASH OVERDRAFT**

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

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

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

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

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

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

**NOTE E INCOME TAXES**

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

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

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

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

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

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**NOTE G COMMITMENTS AND CONTINGENCIES**

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

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

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

**NOTE H RELATED PARTY TRANSACTION**

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

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

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

**NOTE I RECENT ACCOUNTING PRONOUNCEMENTS**

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

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

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

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

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

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

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

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

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

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

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

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

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	Quarter Ended		Nine Months Ended	
	Oct. 2 2005	Sept. 26 2004	Oct. 2 2005	Sept. 26 2004
Other operating expenses	<b>20.1</b>	19.8	<b>19.5</b>	19.0
Total restaurant operating expenses	<b>89.4</b>	90.2	<b>88.0</b>	88.3
General and administrative expenses	<b>7.1</b>	6.7	<b>7.2</b>	7.0
Pre-opening expense	<b>0.4</b>		<b>0.1</b>	
Operating income	<b>3.1</b>	3.1	<b>4.6</b>	4.7
Other income (expense):				
Interest expense, net	<b>(1.4)</b>	(1.8)	<b>(1.4)</b>	(1.8)
Other, net			<b>0.1</b>	
Total other expense	<b>(1.4)</b>	(1.8)	<b>(1.3)</b>	(1.7)
Income before income taxes	<b>1.8</b>	1.3	<b>3.3</b>	2.9
Income tax provision	<b>(0.4)</b>	(0.4)	<b>(0.8)</b>	(0.9)
Net income	<b>1.3%</b>	0.9%	<b>2.5%</b>	2.0%

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

Restaurants open at end of period	<b>27</b>	27		
Weighted average weekly sales per restaurant:				
All restaurants	<b>\$85,700</b>	\$82,600	<b>\$88,400</b>	\$85,000
Same store restaurants	<b>\$85,700</b>	\$82,600	<b>\$89,300</b>	\$86,100

**Net Sales**

Net sales increased by \$1,250,000, or 4.3%, and \$3,721,000, or 4.2%, for the third quarter and first nine months of 2005, respectively, as compared to the same periods of 2004. Weekly average same store sales on a base of 27 restaurants increased by 3.8% and 3.7% for the third quarter and nine months ended October 2, 2005, respectively, compared to the same periods of 2004.

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 (including the effects of hurricanes), 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.

Management estimates the average check per guest, excluding alcoholic beverage sales, was \$17.83 for the third quarter and \$17.79 for the first nine months of 2005. These amounts, which represent increases of approximately 5.1% and 6.6% over the same periods of the prior year, were attributable in part to price increases for certain menu items and in part to a change to modified a la carte pricing for other items. The Company estimates that customer traffic (guest counts) on a same store basis, as adjusted for the estimated effects of hurricanes in both 2005 and



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2004, decreased by approximately 2.0% and 2.8% during the third quarter and first nine months of 2005, respectively, compared to the corresponding periods of 2004.

Management believes that continuing to increase sales volumes in the Company's restaurants is a significant factor in improving the Company's profitability. Management intends to maintain what it believes to be a conservative new restaurant development rate of generally one or 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.

**Costs and Expenses**

Total restaurant operating expenses decreased to 89.4% and 88.0% of net sales for the third quarter and first nine months of 2005, respectively, compared to 90.2% and 88.3% in the corresponding periods of 2004. These decreases were due to reductions in cost of sales as a percentage of net sales which more than offset increases in other operating expenses, and for the nine month period a slight increase in restaurant labor and related costs, as a percentage of net sales.

Cost of sales decreased to 32.7% of net sales in the third quarter of 2005 from 33.8% in the third quarter of 2004 and to 33.0% of net sales in the first nine months of 2005 from 33.7% in the corresponding period of 2004, due primarily to increases in menu prices and the change in pricing format to modified a la carte pricing for beef and seafood entrees, which together with lower prices paid for poultry more than offset higher costs for beef.

Beef purchases represent the largest component of the Company's cost of sales and comprise approximately 28% to 30% of this category. The Company typically enters into an annual pricing agreement covering most of its beef purchases. Due to higher prices in the beef market during 2003 and early 2004, prices under the Company's beef pricing agreement which was effective in March of 2004 increased by an estimated 13% to 14%. Beef prices under the Company's most recent beef pricing agreement which was effective in March of 2005 increased by an estimated additional 7% to 8% over those under the previous agreement. A portion of the increase under the new pricing agreement was due to the Company upgrading its beef program to serve only Certified Angus Beef® in all of its restaurants.

Due to price increases the Company is experiencing for certain food commodities it purchases, management expects that cost of sales as a percentage of net sales will increase in the fourth quarter of 2005 compared to the third quarter of the current year.

Restaurant labor and related costs were constant at 32.6% of net sales for the third quarters of 2005 and 2004 and did not change significantly as a percentage of net sales for the comparative nine month periods.

Depreciation and amortization of restaurant property and equipment as a percentage of net sales decreased by 0.1% for the third quarter and first nine months of 2005 compared to the corresponding periods of 2004 due to higher net sales.

Other operating expenses increased to 20.1% and 19.5% of net sales for the third quarter and first nine months of 2005, respectively, from 19.8% and 19.0% of net sales for the same

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periods of 2004. These increases were due primarily to increases in the cost of utilities, general liability insurance and paper supplies, with a portion of these increases being offset by lower credit card fees resulting from a change in the Company's credit card processor.

**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, totaled \$2,129,000 in the third quarter of 2005 compared to \$1,922,000 in the third quarter of 2004, an increase of \$207,000, or 10.8%. General and administrative expenses increased by \$457,000, or 7.3%, to \$6,745,000 during the first nine months of 2005 from \$6,288,000 during the corresponding period of 2004.

The increases in general and administrative expenses included increases in salaries, training and other personnel related expenses, including higher relocation costs and group insurance expense, which were partially offset by the elimination of executive bonus accruals for 2005 based on results through the third quarter compared to incentive plan targets.

**Pre-Opening Expense**

Pre-opening costs of \$115,000 were incurred during the third quarter of 2005 in connection with the new restaurant opened in October. The remaining pre-opening expense for that restaurant will be included in the fourth quarter's results.

**Other Income (Expense)**

Net interest expense decreased during the 2005 periods compared to the corresponding periods of 2004 due to a reduction in interest expense in 2005 resulting from lower borrowings outstanding and an increase in capitalized interest costs. Additionally, investment income, which is netted against interest expense for income statement presentation, increased due to higher balances of invested funds and higher interest rates.

**Income Taxes**

The Company's estimated effective income tax rate of 24% of income before income taxes for 2005 is lower than the statutory federal income tax rate of 34% due primarily to the effect of FICA tip tax credits expected to be earned and recognized by the Company for the year, with the effect of those credits being partially offset by state income taxes. The estimated effective income tax rate for both the third quarter and first nine months of 2005 is also lower than the rates used for the corresponding periods of 2004 primarily due to the Company's assessment of the valuation allowance maintained for FICA tip credits and certain other deferred tax assets during 2004.

**LIQUIDITY AND CAPITAL RESOURCES**

The Company's capital needs are primarily for the development and construction of new J. Alexander's restaurants, for maintenance of its existing restaurants, and for meeting debt service obligations. Additionally, the Company currently intends to pay a dividend in early 2006 in order to meet the initial requirements to extend certain contractual standstill restrictions under an agreement with its largest shareholder. See Note H to the Condensed Consolidated Financial

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Statements contained herein. The Company has met its needs and maintained liquidity in recent years primarily by use of cash flow from operations, use of bank lines of credit, and through proceeds received from a mortgage loan in 2002.

The Company had cash flow from operations totaling \$5,528,000 and \$4,759,000 during the first nine months of 2005 and 2004, respectively. The 2004 amount included the receipt of a landlord tenant improvement allowance of approximately \$500,000 related to a restaurant opened in the fourth quarter of 2003. Cash and cash equivalents on hand at October 2, 2005 were \$6,044,000. The Company estimates that capital expenditures, including construction and equipment costs for one new restaurant, for 2005 will be approximately \$6.8 million.

The Company maintains a secured bank line of credit agreement which provides up to \$5,000,000 for financing capital expenditures related to the development of new restaurants and for general operating purposes. Credit available under the line, which restricts additional borrowing outside of the line, is currently approximately \$4.6 million and is based on a percentage of the appraised value of the collateral securing the line. 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. There were no borrowings under the line as of October 2, 2005.

Management believes cash and cash equivalents on hand combined with cash flow from operations will be adequate to meet the Company's financing needs for the next twelve months and that its long-term growth plans for opening one or two restaurants per year for the next several years will not be constrained due to lack of capital resources. However, to supplement its other sources of capital and provide additional funds for future growth, the Company completed \$750,000 of five-year equipment financing in January 2004. Management believes that, if needed, additional financing would be available for future growth through an increase in bank credit, additional mortgage or equipment financing, or the sale and leaseback of some or all of the Company's unencumbered restaurant properties. There can be no assurance, however, that, if needed, such financing could be obtained or that it would be on terms satisfactory to the Company.

The Company was in compliance with the financial covenants of its debt agreements as of October 2, 2005. Should the Company fail to comply with these covenants, management would likely request waivers of the covenants, attempt to renegotiate them or seek other sources of financing. However, if these efforts were not successful, amounts outstanding under these credit facilities could become immediately due and payable, and there could be a material adverse effect on the Company's financial condition and operations.

As of November 16, 2005, the Company had no financing transactions or arrangements with any unconsolidated affiliated entities. Additionally, the Company is not a party to any financing arrangements involving synthetic leases or trading activities involving commodity contracts. Contingent lease commitments are discussed in Note G Commitments and Contingencies to the Condensed Consolidated Financial Statements.

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In the ordinary course of business, the Company routinely executes contractual agreements for cleaning services, linen usage, trash removal and similar type services. Whenever possible, these agreements are limited to a term of one year or less and often contain a provision allowing the Company to terminate the agreement upon providing a 30 day written notice. Subsequent to January 2, 2005, there have been a number of agreements of the nature described above executed by the Company. None of them, individually or collectively, would be considered material to the Company's financial position or results of operations in the event of termination prior to the scheduled term.

The only contractual obligation entered into during the first nine months of 2005 considered significant to the Company was the Company's annual beef pricing agreement, which was made in the ordinary course of business and renewed effective March 7, 2005. Under the terms of the agreement, if the Company's supplier has contracted to purchase specific products, the Company is obligated to purchase such products. As of October 2, 2005, the Company's supplier was under contract to purchase approximately \$6.1 million of beef related to the Company's annual pricing agreement.

From 1975 through 1996, the Company operated restaurants in the quick-service restaurant industry. The discontinuation of these quick-service restaurant operations included disposals of restaurants that were subject to lease agreements which typically contained initial lease terms of 20 years plus two additional option periods of five years each. In connection with certain of these dispositions, the Company remains secondarily liable for ensuring financial performance as set forth in the original lease agreements. The Company can only estimate its contingent liability relative to these leases, as any changes to the contractual arrangements between the current tenant and the landlord subsequent to the assignment are not required to be disclosed to the Company. A summary of the Company's estimated contingent liability as of October 2, 2005, is as follows:

Wendy's restaurants (39 leases)	\$ 5,200,000
Mrs. Winner's Chicken & Biscuits restaurants (27 leases)	2,400,000
Total contingent liability related to assigned leases	\$ 7,600,000

There have been no payments by the Company of such contingent liabilities in the history of the Company.

**CRITICAL ACCOUNTING POLICIES**

The preparation of the Company's condensed consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles, 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, property and equipment, impairment of long-lived assets, lease accounting, contingencies and litigation. Management bases its estimates and judgments on

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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 \$7,086,000 of gross deferred tax assets at January 2, 2005, consisting principally of \$4,676,000 of tax credit carryforwards. Generally accepted accounting principles require that the Company record a valuation allowance against its 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 a significant portion of the Company's costs are 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 fiscal years 2002 through 2004, the Company continued to assess the likelihood of realization of the Company's deferred tax assets and the need for a valuation allowance with respect to those assets. Based on the Company's improved historical results and management assessments of the Company's expected future profitability adjusted by varying probability factors, the beginning of the year valuation allowances were reduced by \$1,200,000, \$1,475,000 and \$1,531,000 in the fourth quarters of 2002, 2003 and 2004, respectively.

In performing its analysis in 2004, management concluded that a valuation allowance was needed only for federal alternative minimum tax (AMT) credit carryforwards of \$1,657,000 and for \$262,000 of tax assets related to state net operating loss carryforwards, the use of which involves considerable uncertainty. Even though the AMT credit carryforwards do not expire, their use is not presently considered more likely than not because significant increases in earnings levels are expected to be necessary to utilize them since they must be used only after certain other carryforwards currently available, as well as additional tax credits which are expected to be generated in future years, are realized.

Failure to achieve projected taxable income could affect the ultimate realization of the net deferred tax assets. Because of the uncertainties discussed above, there can be no assurance that management's estimates of future taxable income will be achieved and that there could not be a subsequent increase in the valuation allowance. It is also possible that the Company could generate taxable income levels in the future which would cause

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management to conclude that it is more likely than not that the Company will realize all, or an additional portion of, its deferred tax assets.

The Company will continue to evaluate the likelihood of realization of its deferred tax assets and upon reaching any different conclusion as to the appropriate carrying value of these assets, management will adjust them to their estimated net realizable value. Any such revisions to the estimated realizable value of the 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. However, because the remaining valuation allowance is related to specific deferred tax assets noted above, management does not anticipate further adjustments to the valuation allowance until the Company's projections of future taxable income increase significantly.

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.

**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 and operating expenses. 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.

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**Lease Accounting:** The Company is obligated under various lease agreements for certain restaurant facilities. For operating leases, the Company recognizes rent expense on a straight-line basis over the expected lease term. Capital leases are recorded as an asset and an obligation at an amount equal to the lesser of the present value of the minimum lease payments during the lease term or the fair market value of the leased asset.

Under the provisions of certain of the Company's leases, there are rent holidays and/or escalations in payments over the base lease term, as well as renewal periods. The effects of the holidays and escalations have been reflected in capitalized costs or rent expense on a straight-line basis over the expected lease term, which includes cancelable option periods when it is deemed to be reasonably assured that the Company will exercise its options for such periods due to the fact that the Company would incur an economic penalty for not doing so. The lease term commences on the date when the Company becomes legally obligated for the rent payments. Rent expense incurred during the construction period is capitalized as a component of property and equipment. The leasehold improvements and property held under capital leases for each leased restaurant facility are amortized on the straight-line method over the shorter of the estimated life of the asset or the expected lease term used for lease accounting purposes. Percentage rent expense is generally based upon sales levels and is accrued when it is deemed probable that percentage rent will exceed the minimum rent per the lease agreement. Allowances for tenant improvements received from the lessor are recorded as adjustments to rent expense over the term of the lease.

Judgments made by the Company related to the probable term for each restaurant facility lease affect the payments that are taken into consideration when calculating straight-line rent and the term over which leasehold improvements for each restaurant facility are amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

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 U.S. 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 Company's audited Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 2, 2005, which contain accounting policies and other disclosures required by U.S. 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.

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*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. The Company's growth strategy includes opening restaurants in markets where it has little or no meaningful operating experience and in which potential customers may not be familiar with its restaurants. The success of these new restaurants may be affected by different competitive conditions, consumer tastes and discretionary spending patterns, and the Company's ability to generate market awareness and acceptance of J. Alexander's. As a result, costs incurred related to the opening, operation and promotion of these new restaurants may be greater than those incurred in other areas. In addition, it has been the Company's experience that new restaurants generate operating losses while they build sales levels to maturity. At October 2, 2005, the Company operated twenty-seven J. Alexander's restaurants, of which two had been open for less than two 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. 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.

*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 net sales. Additionally, possible future terrorist attacks and other military conflict could 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 net sales 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



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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 net sales and results of operations.

*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 net sales 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.

*Changes In Food Costs and Product Availability Could Negatively Impact The Company's Net Sales and Results of Operations.* The Company's profitability is dependent in part on its ability to purchase food commodities which meet its specifications and to anticipate and react to changes in food costs and product availability. Ingredients are purchased from suppliers on terms and conditions that management believes are generally consistent with those available to similarly situated restaurant companies. Although alternative distribution sources are believed to be available for most products, increases in food prices, failure to perform by suppliers or distributors or limited availability of products at reasonable prices could cause the Company's food costs to fluctuate and/or cause the Company to make adjustments to its menu offerings. Additional factors beyond the Company's control, including adverse weather conditions and governmental regulation, may also affect food costs and product availability. The Company may not be able to anticipate and react to changing food costs or product availability issues through its purchasing practices and menu price adjustments in the future, and failure to do so could negatively impact the Company's net sales and results of operations.

*Hurricanes and Other Weather Related Disturbances Could Negatively Affect the Company's Sales and Results of Operations.* Certain of the Company's restaurants are located in regions of the country which are commonly affected by hurricanes. Restaurant closures resulting from evacuations, damage or power or water outages caused by hurricanes could adversely affect the Company's sales and profitability.

*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 or operational concerns. The Company is also subject to complaints or allegations from current, former or prospective employees based on, among other things, wage or other discrimination, harassment or wrongful termination. Any claims may be expensive to defend and 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.

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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.

*Nutrition and Health Concerns Could Have an Adverse Effect on the Company.* Nutrition and health concerns are receiving increased attention from the media and government as well as from the health and academic communities. Food served by restaurants has sometimes been suggested as the cause of obesity and related health disorders. Certain restaurant foods have also been argued to be unsafe because of possible allergic reactions to them which may be experienced by guests, or because of alleged high toxin levels. Some restaurant companies have been the target of consumer lawsuits, including class action suits, claiming that the restaurants were liable for health problems experienced by their guests. Continued focus on these concerns by activist groups could result in a perception by consumers that food served in restaurants is unhealthy, or unsafe, and is the cause of a significant health crisis. Additional food labeling and disclosures could also be mandated by government regulators. Adverse publicity, the cost of any litigation against the Company, and the cost of compliance with new regulations related to food nutritional and safety concerns could have an adverse effect on the Company's net sales and operating costs.

*The Company's Current Insurance Policies May Not Provide Adequate Levels of Coverage Against All Claims.* The Company currently maintains insurance coverage that management believes is customary for businesses of its size and type. However, there are types of losses the Company may incur that cannot be insured against or that management believes are not commercially reasonable to insure. These losses, if they occur, could have a material and adverse effect on the Company's business and results of operations.

*Expanding the Company's Restaurant Base By Opening New Restaurants in Existing Markets Could Reduce the Business of its Existing Restaurants.* The Company's growth strategy includes opening restaurants in markets in which it already has existing restaurants. The Company may be unable to attract enough guests to the new restaurants for them to operate at a profit. Even if enough guests are attracted to the new restaurants for them to operate at a profit, those guests may be former guests of one of the Company's existing restaurants in that market and the opening of new restaurants in the existing market could reduce the net sales of its existing restaurants in that market.

*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 net sales 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.

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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 restaurant.

*Future Changes in Financial Accounting Standards May Cause Adverse Unexpected Operating Results and Affect the Company's Reported Results of Operations.* A change in accounting standards can have a significant effect on the Company's reported results and may affect the reporting of transactions completed before the change is effective. As an example, the upcoming change requiring compensation expense to be recorded in the consolidated statement of income for employee stock options using the fair value method could have a significant negative effect on the Company's reported results. New pronouncements and evolving interpretations of pronouncements have occurred and may occur in the future. Changes to the existing rules or differing interpretations with respect to the Company's current practices may adversely affect its reported financial results.

*Compliance With Changing Regulation of Corporate Governance and Public Disclosure May Result in Additional Expenses.* Keeping abreast of, and in compliance with, changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and American Stock Exchange rules, has required an increased amount of management attention and external resources. The Company remains committed to maintaining high standards of corporate governance and public disclosure and intends to invest all reasonably necessary resources to comply with evolving standards. This investment will result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

**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. The Company's ability to pay a dividend will depend on its financial condition and results of operations at any time a dividend is considered or paid. Other risks, uncertainties and factors which could affect actual results include the Company's ability to increase sales in certain of its restaurants; changes in business or economic conditions, including rising food costs and product shortages; the effect of hurricanes and other weather disturbances which are beyond the control of the Company; the number and timing of new restaurant openings and its ability to operate them profitably; competition within the casual dining industry, which is very intense; competition by the Company's new restaurants with its existing restaurants in the same vicinity; changes in consumer spending, consumer tastes, and consumer attitudes toward nutrition and health; expenses incurred if the Company is the subject of claims or litigation or increased governmental regulation; changes in accounting standards, which may affect the Company's reported results of operations; and expenses the Company may incur in order to comply with changing corporate governance and public disclosure requirements of the Securities and Exchange Commission and

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the American Stock Exchange. 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**

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 January 2, 2005.

**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-15(e) and 15d-15(e)) 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 effectively and timely provide them with material information relating to the Company and its consolidated subsidiaries required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934, as amended.

(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.

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**PART II. OTHER INFORMATION**

**Item 6. Exhibits**

(a) Exhibits:

- Exhibit 10.1 Amended and Restated Standstill Agreement dated July 31, 2005 (incorporated by reference to the Company's Form 8-K filed August 1, 2005).
- 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.

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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 16, 2005

/s/ Lonnie J. Stout II

Lonnie J. Stout II  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

Date: November 16, 2005

/s/ R. Gregory Lewis

R. Gregory Lewis  
Vice President and Chief Financial Officer  
(Principal Financial Officer)

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**J. ALEXANDER S CORPORATION AND SUBSIDIARIES  
INDEX TO EXHIBITS**

Exhibit No.

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