ALEXANDERS J CORP
Form 10-K
April 15, 2005

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

þ **Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934.**
For the fiscal year ended January 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 Number)

P.O. Box 24300
3401 West End Avenue

Nashville, Tennessee	37203
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code (615)269-1900

Securities registered pursuant to Section 12(b) of the Act:

Title of Class:	**Name of each exchange on which registered:**
Common stock, par value $.05 per share.	American Stock Exchange
Series A junior preferred stock purchase rights.	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes þ No o

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

Yes o No þ

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the last sales price on the American Stock Exchange of such stock as of June 25, 2004, the last business day of the Company s most recently completed second fiscal quarter, was $30,495,590, assuming that (i) all shares held by officers of the Company are shares owned by affiliates , (ii) all shares beneficially held by members of the Company s Board of Directors are shares owned by affiliates, a status which each of the directors individually disclaims and (iii) all shares held by the Trustee of the J. Alexander s Corporation Employee Stock Ownership Plan are shares owned by an affiliate .

The number of shares of the Company s Common Stock, $.05 par value, outstanding at April 14, 2005, was 6,461,532.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive Proxy Statement for its 2005 Annual Meeting of Shareholders are incorporated by reference into Part III hereof.

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PART I

Item 1. Business

J. Alexander s Corporation (the Company) was organized in 1971 and, as of January 2, 2005, operated as a proprietary concept 27 J. Alexander s full-service, casual dining restaurants located in Alabama, Colorado, Florida, Georgia, Illinois, Kansas, Kentucky, Louisiana, Michigan, Ohio, Tennessee and Texas. J. Alexander s is a traditional restaurant with an American menu that features prime rib of beef; hardwood-grilled steaks, seafood and chicken; pasta; salads and soups; assorted sandwiches, appetizers and desserts; and a full-service bar.

Unless the context requires otherwise, all references to the Company include J. Alexander s Corporation and its subsidiaries.

RESTAURANT OPERATIONS

General. J. Alexander s is a quality casual dining restaurant with a contemporary American menu. J. Alexander s strategy is to provide a broad range of high-quality menu items that are intended to appeal to a wide range of consumer tastes and which are served by a courteous, friendly and well-trained service staff. The Company believes that quality food, outstanding service and value are critical to the success of J. Alexander s.

Each restaurant is generally open from 11:00 a.m. to 11:00 p.m. Monday through Thursday, 11:00 a.m. to 12:00 midnight on Friday and Saturday, and 11:00 a.m. to 10:00 p.m. on Sunday. Entrees available at lunch and dinner generally range in price from $6.95 to $27.00. The Company estimates that the average check per customer for fiscal 2004, excluding alcoholic beverages, was $16.83. J. Alexander s net sales during fiscal 2004 were $122.9 million, of which alcoholic beverage sales accounted for approximately 16.7%.

The Company opened its first J. Alexander s restaurant in Nashville, Tennessee in May 1991. Since that time, the Company opened two restaurants in 1992, two restaurants in 1994, four restaurants in 1995, five restaurants in 1996, four restaurants in 1997, two restaurants in 1998, one restaurant during each of 1999 and 2000, two restaurants in 2001 and three restaurants in 2003.

Menu. The J. Alexander s menu is designed to appeal to a wide variety of tastes and features prime rib of beef; hardwood-grilled steaks, seafood and chicken; pasta; salads and soups; and assorted sandwiches, appetizers and desserts. As a part of the Company s commitment to quality, soups, sauces, salsa, salad dressings and desserts are made daily from scratch; steaks, chicken and seafood are grilled over genuine hardwood; all steaks are U.S.D.A. midwestern, corn-fed choice beef or higher, with a targeted aging of 18 to 35 days; and imported Italian pasta, topped with fresh grated parmesan cheese, is used. Emphasis on quality is present throughout the entire J. Alexander s menu. Desserts such as chocolate cake and carrot cake are prepared in-house, and most restaurants bake featured croissants in-house as well.

Guest Service. Management believes that prompt, courteous and efficient service is an integral part of the J. Alexander s concept. The management staff of each restaurant are referred to as coaches and the other employees as champions . The Company seeks to hire coaches who are committed to the principle that quality products and service are key factors to success in the restaurant industry. Each J. Alexander s restaurant typically employs four to five fully-trained concept coaches and two kitchen coaches. Many of the coaches have previous experience in full-service restaurants and all complete an intensive J. Alexander s development program, generally lasting for 19 weeks, involving all aspects of restaurant operations.

Each J. Alexander s restaurant employs approximately 40 to 60 service personnel, 25 to 30 kitchen employees, 8 to 10 host persons and 6 to 8 pubkeeps. The Company places significant emphasis on its initial training program. In addition, the coaches hold training breakfasts for the service staff to further enhance their product knowledge. Management believes J. Alexander s restaurants have a low table to server ratio, which is designed to provide better, more attentive service. The Company is committed to employee empowerment, and each member of the service staff is authorized to provide complimentary food in the event that a guest has an unsatisfactory dining experience or the food quality is not up to the Company s standards. Further, all members of the service staff are trained to know the Company s product specifications and to alert management of any potential problems.

Quality Assurance. A key position in each J. Alexander s restaurant is the quality control coordinator. This position is staffed by a coach who inspects each plate of food before it is served to a guest. The Company believes that this product inspection by a member of management is a significant factor in maintaining consistent, high food quality in its restaurants.

Another important component of the quality assurance system is the preparation of taste plates. Certain menu items are taste-tested daily by a coach to ensure that only the highest quality food is served in the restaurant. The Company also uses a service evaluation program to monitor service staff performance, food quality and guest satisfaction.

Restaurant Design and Site Selection. The J. Alexander s restaurants are generally free-standing structures that contain approximately 7,500 square feet and seat approximately 230 people. The restaurants interiors are designed to provide an upscale ambiance and feature an open kitchen. The Company has used a variety of interior and exterior finishes and materials in its building designs which are intended to provide a high level of curb appeal as well as a comfortable dining experience.

The design of J. Alexander s restaurant exteriors has evolved through the years, with the Company s restaurants in Boca Raton, Florida, Atlanta, Georgia and Northbrook, Illinois maintaining a Wrightian architectural style which represents the most recent J. Alexander s building design. These buildings feature a high central-barreled roof and exposed structural steel system over an open, symmetrical floor plan. Angled window wall projections from the dining room provide a focus into the interior and create an anchor for the building. A garden seating area for waiting is provided by the patio and open trellis adjacent to the entrance, integrating the building into the adjacent landscape.

From 1996 through 2000, the Company s building designs generally utilized craftsman-style architecture, which featured natural materials such as stone, wood and weathering copper, as well as a blend of international and craftsman architecture featuring elements such as steel, concrete, stone and glass, subtly incorporated to give a contemporary feel. Prior to 1996, the building style most frequently used by the Company was a warehouse style building which featured high ceilings, wooden trusses and exposed ductwork.

Modifications to the more typical building designs have also been made as necessary to accommodate unique situations. For example, the Company s newest restaurant, located in Chicago, Illinois, near Lincoln Park, is located in an upscale urban shopping district and prominently occupies approximately 7,500 square feet of a restored warehouse building. The J. Alexander s restaurant located in Troy, Michigan is located inside the prestigious Somerset Collection Mall and features a very upscale, contemporary design developed specifically for that location. The Company s Houston restaurant which opened in 2003 was previously operated by another full service, upscale casual dining concept and required minimal changes to the building s exterior and interior finishes.

The Company currently plans to open one new restaurant during 2005, located in Nashville, Tennessee. Capital expenditures for 2005 are estimated to total $7 million and include the new Nashville restaurant as well as additions and improvements to existing restaurants. Management is continually seeking locations for additional restaurants and would consider quickly taking advantage of any attractive opportunities which might arise. If additional satisfactory locations are found and successfully negotiated any amounts expended in 2005 for development of such sites, which would represent late 2005 or 2006 openings, will be in addition to the amount discussed above. Excluding the cost of land acquisition, the Company estimates that the cash investment for site preparation and for constructing and equipping a J. Alexander s restaurant is currently approximately $3.4 to $4.1 million. The Company has generally preferred to own its sites because of the long-term value of real estate ownership. However, because of the Company s current development strategy, which focuses on markets with high population densities and household incomes, it has become increasingly difficult to find sites that are available for purchase and the Company has leased the sites for all but two of its restaurants opened since 1997. The cost of the two sites most recently purchased averaged approximately $1.5 million each. Management anticipates that the cost of future sites, when and if purchased, will range from $1.25 to $2 million, and could exceed this range for exceptional properties.

The Company currently plans to continue to open one to two new restaurants per year for the foreseeable future. The timing of restaurant openings depends upon the selection and availability of suitable sites and other factors. The Company has no current plans to franchise J. Alexander s restaurants.

The Company believes that its ability to select high profile restaurant sites is critical to the success of the J. Alexander s operations. Once a prospective site is identified and preliminary site analysis is performed and evaluated, members of the Company s senior management team visit the proposed location and evaluate the particular site and the surrounding area. The Company analyzes a variety of factors in the site selection process, including local market demographics, the number, type and success of competing restaurants in the immediate and surrounding area and accessibility to and visibility from major thoroughfares. The Company believes that this site selection strategy results in quality restaurant locations, although results for the Company s two newest restaurants opened in 2003 have been below management s expectations.

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SERVICE MARK

The Company has registered the service mark J. Alexander s Restaurant with the United States Patent and Trademark Office and believes that it is of material importance to the Company s business.

COMPETITION

The restaurant industry is highly competitive. The Company believes that the principal competitive factors within the industry are site location, product quality, service and price; however, menu variety, attractiveness of facilities and customer recognition are also important factors. The Company s restaurants compete not only with numerous other casual dining restaurants with national or regional images, but also with other types of food service operations in the vicinity of each of the Company s restaurants. These include other restaurant chains or franchise operations with greater public recognition, substantially greater financial resources and higher total sales volume than the Company. 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.

PERSONNEL

As of January 2, 2005, the Company employed approximately 2,650 persons. The Company believes that its employee relations are good. It is not a party to any collective bargaining agreements.

GOVERNMENT REGULATION

Each of the Company s restaurants is subject to various federal, state and local laws, regulations and administrative practices relating to the sale of food and alcoholic beverages, and sanitation, fire and building codes. Restaurant operating costs are also affected by other governmental 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. Difficulties or failures in obtaining the required licenses or approvals could delay or prevent the opening of a new restaurant.

Alcoholic beverage control regulations require each of the Company s J. Alexander s restaurants to apply for and obtain from state and local authorities a license or permit to sell liquor on the premises and, in some states, to provide service for extended hours and on Sundays. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. The failure of any restaurant to obtain or retain any required liquor licenses would adversely affect the restaurant s operations. In certain states, the Company may be subject to dram-shop statutes, which generally provide a person injured by an intoxicated person the right to recover damages from the establishment which wrongfully served alcoholic beverages to the intoxicated person. Of the twelve states where J. Alexander s operates, eleven have dram-shop statutes or recognize a cause of action for damages relating to sales of liquor to obviously intoxicated persons and/or minors. The Company carries liquor liability coverage with an aggregate limit and a limit per common cause of $1 million as part of its comprehensive general liability insurance.

The Americans with Disabilities Act (ADA) prohibits discrimination on the basis of disability in public accommodations and employment. The ADA became effective as to public accommodations and employment in 1992. Construction and remodeling projects completed by the Company since January 1992 have taken into account the requirements of the ADA. While no further expenditures relating to ADA compliance in existing restaurants are anticipated, the Company could be required to further modify its restaurants physical facilities to comply with the provisions of the ADA.

FORWARD-LOOKING STATEMENTS

The forward-looking statements included in this Annual Report on Form 10-K relating to certain matters involve risks and uncertainties, including anticipated financial performance, business prospects, anticipated capital expenditures, financing arrangements and other similar matters, which reflect management s best judgment based on factors currently known. Actual results and experience could differ materially from the anticipated results or other expectations expressed in the Company s forward-looking statements as a result of a number of factors. Forward-looking information provided by the Company pursuant to the safe harbor established under the Private Securities Litigation Reform Act of 1995 should be evaluated in the context of these factors. In addition, the Company disclaims any intent or obligation to update these forward-looking statements.

RISK FACTORS

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

The Company Faces Challenges in Opening New Restaurants. The Company s continued growth depends on its ability to open new J. Alexander s restaurants and to operate them profitably, which will depend on a number of factors, including the selection and availability of suitable locations, the hiring and training of sufficiently skilled management and other personnel and other factors, some of which are beyond the control of the Company. In addition, it has been the Company s experience that new restaurants generate operating losses while they build sales levels to maturity. The Company currently operates twenty-seven J. Alexander s restaurants, of which two have 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 the 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 revenues. Additionally, possible future terrorist attacks on the United States 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 revenues and operating results.

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

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

Changes In Food Costs Could Negatively Impact The Company s Revenues and Results of Operations. The Company s profitability is dependent in part on its ability to anticipate and react to changes in food costs. Ingredients are purchased from distributors on terms and conditions that management believes are consistent with those made available to similarly situated restaurant companies. Although alternative distribution sources are believed to be available, any increases in distribution prices or failure to perform by distributors could cause the Company s food costs to fluctuate. Additional factors beyond the Company s control, including adverse weather and market conditions, disease and governmental regulation, may also affect food costs. The Company may not be able to anticipate and react to changing food costs through its purchasing practices and menu price adjustments in the future, and failure to do so could negatively impact the Company s revenues and results of operations.

Litigation Could Have a Material Adverse Effect on the Company s Business. From time to time the Company is the subject of complaints or litigation from guests alleging food-borne illness, injury or other food quality, health or operational concerns. The Company is also subject to complaints or allegations from current, former or prospective employees based on, among other things, wage discrimination, harassment or wrongful termination. Such claims could divert resources which would otherwise be used to improve the performance of the Company. A lawsuit or claim could also result in an adverse decision against the Company that could have a materially adverse effect on the Company s business.

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

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

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.

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Executive Officers of the Company

The following list includes names and ages of all of the executive officers of the Company indicating all positions and offices with the Company held by each such person and each such person s principal occupations or employment during the past five years. All such persons have been appointed to serve until the next annual appointment of officers and until their successors are appointed, or until their earlier resignation or removal.

Name and Age	Background Information
R. Gregory Lewis, 52	Chief Financial Officer since July 1986; Vice President of Finance and Secretary since August 1984.
J. Michael Moore, 45	Vice-President of Human Resources and Administration since November 1997; Director of Human Resources and Administration from August 1996 to November 1997; Director of Operations, J. Alexander s Restaurants, Inc. from March 1993 to April 1996.
Mark A. Parkey, 42	Vice-President since May 1999; Controller of the Company since May 1997; Director of Finance from January 1993 to May 1997.
Lonnie J. Stout II, 58	Chairman since July 1990; Director, President and Chief Executive Officer since May 1986.

Available Information

The Company s internet website address is http://www.jalexanders.com. The Company makes available free of charge through its website the Company s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practical after it electronically files or furnishes such materials to the Securities and Exchange Commission. Information contained on the Company s website is not part of this report.

Item 2. Properties

As of January 2, 2005, the Company had 27 J. Alexander s casual dining restaurants in operation. The following table gives the locations of, and describes the Company s interest in, the land and buildings used in connection with the above:

	Site and Building Owned by the Company	Site Leased and Building Owned by the Company	Space Leased to the Company	Total
J. Alexander s Restaurants:				
Alabama	1	0	0	1
Colorado	1	0	0	1
Florida	2	2	0	4
Georgia	1	0	0	1
Illinois	2	0	1	3

Kansas	1	0	0	1
Kentucky	0	1	0	1
Louisiana	0	1	0	1
Michigan	1	1	1	3
Ohio	3	2	0	5
Tennessee	3	0	1	4
Texas	0	1	1	2
Total	15	8	4	27

(a) In addition to the above, the Company leases one of its former Wendy s properties which is in turn leased to a third party.

(b) See Item 1 for additional information concerning the Company s restaurants.

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All of the Company s J. Alexander s restaurant lease agreements may be renewed at the end of the initial term (generally 15 to 20 years) for periods of five or more years. Certain of these leases provide for minimum rentals plus additional rent based on a percentage of the restaurant s gross sales in excess of specified amounts. These leases usually require the Company to pay all real estate taxes, insurance premiums and maintenance expenses with respect to the leased premises.

Corporate offices for the Company are located in leased office space in Nashville, Tennessee.

Certain of the Company s owned restaurants are mortgaged as security for the Company s mortgage loan and secured line of credit. See Note D, Long-Term Debt and Obligations Under Capital Leases, to the Consolidated Financial Statements.

Item 3. Legal Proceedings

As of April 15, 2005, the Company was not a party to any pending legal proceedings considered material to its business.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of 2004.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The common stock of J. Alexander s Corporation is listed on the American Stock Exchange under the symbol JAX. The approximate number of record holders of the Company s common stock at March 21, 2005, was 1,450. The following table summarizes the price range of the Company s common stock for each quarter of 2004 and 2003, as reported from price quotations from the American Stock Exchange:

	2004		2003	
	Low	High	Low	High
1st Quarter	$ 6.65	$ 9.20	$ 2.77	$ 3.80
2nd Quarter	6.20	7.95	2.91	4.34
3rd Quarter	6.38	8.00	4.09	5.67
4th Quarter	6.50	7.65	4.70	8.02

The Company has never paid cash dividends on its common stock. Payment of future dividends will be within the discretion of the Company s Board of Directors and will depend, among other factors, on earnings, capital requirements and the operating and financial condition of the Company.

Item 6. Selected Financial Data

The following table sets forth selected financial data for each of the years in the five-year period ended January 2, 2005:

	Years Ended				
(Dollars in thousands, except per share data)	**January 2 2005[1]**	December 28 2003	December 29 2002	December 30 2001	December 31 2000
Operations					
Net sales	**$ 122,918**	$ 107,059	$ 98,779	$ 91,206	$ 87,511
Pre-opening expense		897	10	628	256
Income before income taxes and cumulative effect of change in accounting principle	**4,378**	2,158[4]	2,608	902	891
Net income	**4,822[2]**	3,280[3,4]	2,835[5]	271	481
Depreciation and amortization	**4,923**	4,591	4,594	4,428	4,299
Cash flow from operations	**8,971**	7,484	8,415	6,271	4,807
Purchase of property and equipment	**3,010**	9,418	6,670	8,306	4,910
Financial Position (end of period)					
Cash and investments	**$ 7,495**	$ 1,635	$ 10,525	$ 1,035	$ 1,057
Property and equipment, net	**72,425**	73,613	69,521	66,946	62,590
Total assets	**88,919**	82,537	85,033	71,303	66,370
Long-term debt and obligations under capital leases	**24,017**	24,642	24,451	19,532	16,771

Stockholders equity		**49,602**		44,432		40,799		38,170		38,001
Per Share Data										
Basic earnings per share	**$**	**.75**	$	.50	$	.42	$	.04	$	.07
Diluted earnings per share		**.71**		.49		.42		.04		.07
Dividends declared per share										
Stockholders equity		**7.68**		6.91		6.13		5.62		5.55
Market price at year end		**7.40**		7.00		2.60		2.20		2.31
J. Alexander s Restaurant Data										
Weighted average annual sales per restaurant	**$**	**4,462**	$	4,243	**$**	4,118	$	4,077	$	4,087
Units open at year end		**27**		27		24		24		22

1 *Includes 53 weeks of operations, compared to 52 weeks for all other years presented.*

2 *Includes deferred income tax benefit of $1,531 related to an adjustment of the Company s beginning of the year valuation allowance for deferred income tax assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 Accounting for Income Taxes .*

3 *Includes deferred income tax benefit of $1,475 related to an adjustment of the Company s beginning of the year valuation allowance for deferred income tax assets in accordance with SFAS No. 109 Accounting for Income Taxes .*

4 *Includes non-cash compensation expense of $552 related to a stock option grant accounted for as a variable stock option award.*

5 *Includes deferred income tax benefit of $1,200 related to an adjustment of the Company s beginning of the year valuation allowance for deferred income tax assets in accordance with SFAS No. 109 Accounting for Income Taxes and a $171 charge for impaired goodwill in accordance with SFAS No. 142 Goodwill and Other Intangible Assets .*

Item 7. 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. At January 2, 2005, the Company owned and operated 27 J. Alexander s restaurants in 12 states. 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.

Management was generally pleased with the Company s performance for the 2004 fiscal year. The Company achieved what management considers to be excellent improvement in weekly average same store sales per restaurant of 7.9% for the year by maintaining guest counts while increasing menu prices by approximately 5% in response to record high levels of input costs in several major food cost categories. Increases in food input costs continued to be a significant issue faced by the Company, as cost of sales as a percentage of sales increased to 33.6% in 2004 from 32.4% in 2003, even though the Company increased menu prices as indicated. This follows an increase of .8% in the cost of sales percentage in 2003 over 2002. A large portion of the 2004 cost of sales increase was due to increases in the Company s cost of beef, which increased further in March of 2005.

In order to offset at least a portion of the cost of sales increases it is experiencing, in April of 2005 the Company increased prices for selected menu items and changed its menu pricing format to modified à la carte pricing for beef and seafood entrees. Under the modified à 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 believes these changes will reduce the Company s cost of sales as a percentage of sales and that same store sales should continue to increase in 2005 as a result of the effect of menu price increases and continued excellence in restaurant operations. However, average guest counts per restaurant on a same store basis declined by

approximately 2% during the last half of 2004 and the first quarter of 2005 compared to the corresponding prior year periods, and there can be no assurance that further guest count losses will not be experienced as a result of the increased menu prices or other factors, and that same store sales could be negatively affected.

The opening of new restaurants by the Company can and does have a significant impact on the Company s financial performance. Because pre-opening costs for new restaurants are significant and most new restaurants incur start-up losses during their early months of operation, the number of restaurants opened in a particular year can have a significant impact on the Company s operating results. Sales at the Company s two newest restaurants opened in the fourth quarter of 2003 have not met management s expectations to date and both of these restaurants continued to experience operating losses in 2004. Management believes that over time sales and operating profits in these restaurants will increase to more acceptable levels, as has generally been the case with certain of the Company s other restaurants.

Because large capital investments are required for J. Alexander s restaurants and because a significant portion of labor costs and other operating expenses are fixed or semi-fixed in nature, the sales required for an individual restaurant to break even are high compared to many other casual dining concepts and it is necessary for the Company to achieve relatively high sales volumes in its restaurants in order to achieve desired financial returns. The Company s criteria for new restaurant development target locations with high population densities and high household incomes which management believes provide the best prospects for achieving outstanding financial returns on the Company s investments in new restaurants. Management intends to maintain a conservative new restaurant development rate of generally one to two new restaurants per year to allow management to focus intently on improving sales and profits in its existing restaurants, while maintaining its pursuit of operational excellence. The Company currently plans to open one new restaurant in 2005.

Summary of Results

During fiscal 2004, the Company posted income before income taxes of $4,378,000, up from $2,158,000 reported during 2003. Operating income for 2004 also improved by over $2,000,000 compared to the previous year. These improvements were achieved in part because of pre-opening expenses and non-cash compensation expense which were included in the 2003 results, with virtually no corresponding expenses incurred in 2004. Also reflected in the 2004 results are the benefit of an extra week included in the fiscal year, a non-recurring property gain of $117,000, and operating losses incurred in 2004 in the Company s two newest restaurants opened in the fourth quarter of 2003.

Net income increased to $4,822,000 in 2004 from $3,280,000 in 2003. The 2004 results included a favorable adjustment of $1,531,000 to the income tax provision for the year as a result of a reduction of the Company s valuation allowance recorded against its deferred income tax assets. A similar adjustment in the amount of $1,475,000 was included in the income tax provision for 2003.

For 2003, the Company posted income before income taxes and the cumulative effect of a change in accounting principle of $2,158,000 compared to $2,608,000 reported during 2002. Weekly average same store sales increased by 3.9% in 2003 over 2002 and restaurant operating margins (net sales minus total restaurant operating expenses divided by net sales) improved for 2003 compared to 2002, in spite of an increase in the cost of sales experienced for the year. Operating income for 2003, while improving by $331,000, or 8.6%, compared to 2002, was significantly affected by pre-opening costs associated with the opening of three new restaurants, as well as operating losses incurred in the two restaurants which opened in the fourth quarter of the year and by non-cash compensation expense of $552,000 related to an option grant accounted for as a variable stock option award. An increase in interest expense of $812,000 more than offset the operating profit improvement achieved.

Net income increased to $3,280,000 in 2003 from $2,835,000 in 2002. The 2003 results included a favorable adjustment of $1,475,000 to the income tax provision for the year as the result of a reduction of the Company s valuation allowance recorded against its deferred income tax assets. A similar adjustment in the amount of $1,200,000 was included in the income tax provision for 2002.

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

	Fiscal Year		
	2004	2003	2002
Net sales	**100.0%**	100.0%	100.0%
Costs and expenses:			
Cost of sales	**33.6**	32.4	31.6
Restaurant labor and related costs	**31.4**	32.7	33.2
Depreciation and amortization of restaurant property and equipment	**3.8**	4.1	4.4
Other operating expenses	**19.0**	18.4	18.9
Total restaurant operating expenses	**87.9**	87.6	88.1
General and administrative expenses	**7.0**	7.7	7.9
Pre-opening expense		.8	
Gain on involuntary property conversion	**.1**		
Operating income	**5.3**	3.9	3.9
Other income (expense):			
Interest expense, net	**(1.7)**	(2.0)	(1.3)
Other, net		.1	
Total other expense	**(1.7)**	(1.9)	(1.3)
Income before income taxes and cumulative effect of change in accounting principle	**3.6**	2.0	2.6
Income tax provision (benefit):			
Current	**1.2**	.3	.8
Deferred	**(1.5)**	(1.4)	(1.2)
Total	**(0.4)**	(1.0)	(.4)
Income before cumulative effect of change in accounting principle	**3.9**	3.1	3.0
Cumulative effect of change in accounting principle			(.2)
Net income	**3.9%**	3.1%	2.9%

Note: Certain percentage totals do not sum due to rounding. Fiscal 2004 contained 53 weeks compared to 52 weeks in both 2003 and 2002.

Restaurants open at end of year	**27**	27	24
Weighted average weekly sales per restaurant	**$ 85,800**	$ 81,600	$ 79,200

Net Sales

Net sales increased by approximately $15.9 million, or 14.8%, to $122.9 million in fiscal year 2004 from $107.1 million in 2003. The $107.1 million of net sales recorded in 2003 represented an increase of $8.3 million, or 8.4%, over $98.8 million of sales reported in 2002. The sales increase in 2004 was due to increases in net sales in the same store restaurant base and to additional restaurant weeks during 2004 because of the opening of three restaurants during 2003 and an additional week included in the fiscal year. Management estimates that the 53rd week included in the 2004 fiscal year increased sales by approximately $2,850,000. The sales increase in 2003 was primarily due to three new restaurants which opened during the year and to sales increases within the Company s same store base. Average weekly same store sales per restaurant increased by 7.9% to $88,500 per week in 2004 from $82,000 per week in 2003 on a base of 25 restaurants. Same store sales averaged $82,200 per restaurant per week in 2003, an increase of 3.9% from 2002 on a base of 24 restaurants.

The Company computes weighted average weekly sales per restaurant by dividing total restaurant sales for the period by the total number of days all restaurants were open for the period to obtain a daily sales average, with the daily sales average then multiplied by seven to arrive at weekly average sales per restaurant. Days on which restaurants are closed for business for any reason other than the scheduled closure of all J. Alexander s restaurants on Thanksgiving day and Christmas day are excluded from this calculation. Weighted average weekly same store sales per restaurant are

computed in the same manner as described above except that sales and sales days used in the calculation include only those for restaurants open for more than 18 months.

Management believes that same store sales and guest count trends are important measures of comparative performance in the restaurant industry and for the Company. Included in the same store sales increases above were estimated guest count increases of approximately .6% in 2004 and 3.2% in 2003. After experiencing declining guest counts in the first three quarters of 2002, the Company s guest counts flattened in the fourth quarter of 2002 and increased on a comparative basis each quarter in 2003 and for the first two quarters of 2004. Management believes the increases in 2003 and the first half of 2004 were due to improved service levels in the Company s restaurants, limited menu price increases during 2002 and 2003, and improvements in operations in certain of the Company s restaurants located in small and mid-sized markets. Increased wine sales, which management believes are due to additional emphasis placed on the Company s wine feature program, and special menu features also contributed to same store sales increases in 2003 and 2004. Management estimates that guest counts on a same store basis declined by approximately 2% in the last half of 2004 compared to the last half of 2003 primarily because of higher menu prices. Management estimates the average check per guest, excluding alcoholic beverage sales, was $16.83 for 2004, compared to $15.89 in 2003 and $15.83 in 2002. Menu prices for 2004 increased by an estimated 5% compared to 2003. No significant increases were made in 2003.

Management believes its long-term emphasis on providing professional service combined with effective menu management will continue to build sales and increase guest traffic over time. Average weekly same store sales increased by approximately 4% for the first quarter of 2005 compared to the same period of 2004.

Restaurant Costs and Expenses

Total restaurant operating expenses increased to 87.9% of sales in 2004 from 87.6% in 2003. Total restaurant operating expenses were 88.1% of net sales in 2002. The increase in 2004 was due primarily to the impact of higher cost of sales and to the effect of higher operating expense percentages experienced in the Company s two newest restaurants opened in the last quarter of 2003, with lower labor costs and depreciation and amortization charges partially offsetting the effect of these increases. The decrease in 2003 compared to 2002 was due to decreases in all restaurant operating expense categories, with the exception of cost of sales. Restaurant operating margins (net sales minus total restaurant operating expenses, divided by net sales) decreased to 12.1% in 2004 from 12.4% in 2003, which was up from 11.9% in 2002.

Cost of sales, which includes the cost of food and beverages, increased to 33.6% of sales in 2004 from 32.4% in 2003, as the effect of menu price increases did not offset, as a percentage of net sales, significantly higher input costs associated with beef, pork, poultry, dairy products and other food commodities during the year. Cost of sales, as a percentage of net sales, increased by .8% in 2003 compared to 2002 due primarily to increases in input costs in a number of categories including poultry, produce and dairy. The Company s cost of salmon also increased in 2003 as did the cost of shortening and cooking oil. Beef costs increased in 2003 due to the effect of upgrading selected beef products to higher quality and more expensive Certified Angus Beef ®, and the Company also experienced a shift toward more sales of beef products, which generally have a higher cost of sales.

Beef purchases represent the largest component of the Company s cost of sales, comprising approximately 28% of this category. The Company typically enters into an annual pricing agreement covering most of its beef purchases. Due to high 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% for the twelve month term of that agreement. In response to the higher beef input costs as well as continuing upward pressure on the cost of a number of other food items, the Company increased menu prices by approximately 3% in March of 2004 and by lesser amounts several times throughout the remainder of the year. Beef prices under the Company s most recent beef pricing

agreement which is effective at the end of March of 2005 will increase by an estimated additional 7% to 8% over those under the previous agreement. A portion of the increase under the new pricing agreement is due to the Company upgrading its beef program to serve only Certified Angus Beef ® in all of its restaurants.

Restaurant labor and related costs decreased to 31.4% of net sales in 2004 from 32.7% of net sales during 2003. Because of the nature of J. Alexander s operations and the Company s emphasis on providing high quality food and outstanding levels of service, much of the labor scheduled for overseeing restaurant operations, for preparing food, and for staffing the service areas of the restaurants is relatively fixed in nature within broad ranges of sales for each restaurant. As a result, increases in net sales in the same store restaurant base in 2004 did not result in proportionate increases in labor costs and labor costs as a percentage of net sales decreased. The effect of these decreases more than offset high labor costs in newer restaurants. A decrease in group medical costs resulting from changes to the Company s group medical plan also contributed to the decrease. Restaurant labor and related costs decreased to 32.7% of net sales

in 2003 from 33.2% in 2002 due largely to the effect of higher tip share contributions by restaurant servers to each restaurant s tip pool, which resulted in reductions in the hourly wage rates paid by the Company to the employees receiving larger distributions under the tip pool program. The favorable effects of the higher tip share contributions combined with labor efficiencies gained at higher sales volumes as described above more than offset the effects of higher labor costs in new restaurants and increases in workers compensation insurance premiums.

Depreciation and amortization of restaurant property and equipment as a percentage of net sales decreased to 3.8% for 2004 from 4.1% for 2003 primarily due to the effect of higher same store sales volumes which more than offset the effect of higher depreciation expense on the new, lower volume locations opened in the fourth quarter of 2