ALEXANDERS J CORP
Form 10-Q
August 17, 2005

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

(Mark One)

FORM 10-Q

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

For quarterly period ended July 3, 2005

OR

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

For the transition period from __________ to __________ .

Commission file number 1-8766

J. ALEXANDER S CORPORATION

(Exact name of registrant as specified in its charter)

Tennessee	62-0854056
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices)
(Zip Code)
(615)269-1900
(Registrant s telephone number, including area code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Securities Exchange Act of 1934).
Yes o No þ

Common Stock Outstanding 6,501,082 shares at August 17, 2005.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements
J. Alexander s Corporation and Subsidiaries
Condensed Consolidated Balance Sheets
(Unaudited dollars in thousands, except per share amount)

	July 3 2005	January 2 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 6,968**	$ 6,129
Accounts and notes receivable	**1,572**	2,178
Inventories	**1,200**	1,132
Deferred income taxes	**1,327**	1,327
Prepaid expenses and other current assets	**1,499**	1,191
TOTAL CURRENT ASSETS	**12,566**	11,957
OTHER ASSETS	**1,192**	1,122
PROPERTY AND EQUIPMENT, at cost, less allowances for depreciation and amortization of $35,846 and $33,990 at July 3, 2005, and January 2, 2005, respectively	**72,679**	72,425
DEFERRED INCOME TAXES	**3,236**	3,236
DEFERRED CHARGES, less amortization	**775**	814
	$90,448	$89,554

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	July 3 2005	January 2 2005
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	**$ 3,641**	$ 3,050
Accrued expenses and other current liabilities	**4,018**	4,893
Unearned revenue	**1,890**	2,680
Current portion of long-term debt and obligations under capital leases	**745**	769
TOTAL CURRENT LIABILITIES	**10,294**	11,392
LONG-TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES, net of portion classified as current	**23,610**	24,017
OTHER LONG-TERM LIABILITIES	**4,914**	4,543
STOCKHOLDERS EQUITY		
Common Stock, par value $.05 per share: Authorized 10,000,000 shares; issued and outstanding 6,482,948 and 6,460,199 shares at July 3, 2005, and January 2, 2005, respectively	**325**	324
Preferred Stock, no par value: Authorized 1,000,000 shares; none issued		
Additional paid-in capital	**34,368**	34,312
Retained earnings	**17,562**	15,629
	52,255	50,265
Note receivable Employee Stock Ownership Plan	**(192)**	(192)
Employee notes receivable 1999 Loan Program	**(433)**	(471)
TOTAL STOCKHOLDERS EQUITY	**51,630**	49,602
	$90,448	$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		Six Months Ended	
	July 3 2005	June 27 2004	**July 3 2005**	June 27 2004
Net sales	**$30,953**	$29,847	**$63,107**	$60,636
Costs and expenses:				
Cost of sales	**10,104**	10,194	**20,868**	20,395
Restaurant labor and related costs	**9,791**	9,318	**19,781**	18,986
Depreciation and amortization of restaurant property and equipment	**1,198**	1,161	**2,386**	2,314
Other operating expenses	**5,866**	5,647	**12,087**	11,307
Total restaurant operating expenses	**26,959**	26,320	**55,122**	53,002
General and administrative expenses	**2,326**	2,177	**4,616**	4,366
Operating income	**1,668**	1,350	**3,369**	3,268
Other income (expense):				
Interest expense, net	**(447)**	(527)	**(909)**	(1,056)
Other, net	**75**	14	**86**	32
Total other expense	**(372)**	(513)	**(823)**	(1,024)
Income before income taxes	**1,296**	837	**2,546**	2,244
Income tax provision	**(312)**	(261)	**(613)**	(720)
Net income	**$ 984**	$ 576	**$ 1,933**	$ 1,524
Earnings per share:				
Basic earnings per share	**$ .15**	$ .09	**$ .30**	$ .24
Diluted earnings per share	**$ .14**	$ .09	**$ .28**	$ .22

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)

	Six Months Ended	
	July 3 2005	June 27 2004
Net cash provided by operating activities:		
Net income	**$ 1,933**	$ 1,524
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	**2,429**	2,351
Decrease in receivables from credit card issuers	**606**	254
Decrease in receivable from landlord for tenant improvement allowance		497
Changes in other working capital accounts	**(2,957)**	(1,181)
Other operating activities	**495**	496
	2,506	3,941
Net cash used by investing activities:		
Purchase of property and equipment	**(2,787)**	(1,609)
Other investing activities	**(82)**	(65)
	(2,869)	(1,674)
Net cash provided (used) by financing activities:		
Payments on debt and obligations under capital leases	**(431)**	(371)
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	**38**	26
Increase (decrease) in bank overdraft	**1,538**	(1,203)
Exercise of stock options	**57**	38
	1,202	(1,246)
Increase in cash and cash equivalents	**839**	1,021
Cash and cash equivalents at beginning of period	**6,129**	872
Cash and cash equivalents at end of period	**$ 6,968**	$ 1,893

See notes to condensed consolidated financial statements.

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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with 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 six months ended July 3, 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 and the Condensed Consolidated Statement of Cash Flows for the six months ended June 27, 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):

July 3, 2005	$1,395
January 2, 2005	$2,001
June 27, 2004	$1,712
December 28, 2003	$1,966

NOTE C CASH OVERDRAFT

As a result of maintaining a consolidated cash management system and, in part, due to the reclassification of the credit card transactions discussed in Note B above, the Company maintains an overdraft position at its primary bank at various times throughout the year. Overdraft balances, which were included in accounts payable for all periods presented, were as follows at the following dates (in thousands):

July 3, 2005	$2,173
January 2, 2005	$ 635
June 27, 2004	$ 0
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 six months ended June 27, 2004 has been reclassified to give effect to the overdraft at December 28, 2003.

NOTE D EARNINGS PER SHARE

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

	Quarter Ended		Six Months Ended	
(In thousands, except per share amounts)	**July 3 2005**	June 27 2004	**July 3 2005**	June 27 2004
Numerator:				
Net income (numerator for basic earnings per share)	**$ 984**	$ 576	**$1,933**	$1,524
Effect of dilutive securities				
Net income after assumed conversions (numerator for diluted earnings per share)	**$ 984**	$ 576	**$1,933**	$1,524
Denominator:				
Weighted average shares (denominator for basic earnings per share)	**6,469**	6,443	**6,465**	6,440
Effect of dilutive securities:				
Employee stock options	**323**	333	**323**	349
Adjusted weighted average shares and assumed conversions (denominator for diluted earnings per share)	**6,792**	6,776	**6,788**	6,789
Basic earnings per share	**$ .15**	$ .09	**$ .30**	$ .24
Diluted earnings per share	**$ .14**	$ .09	**$ .28**	$ .22

The calculations of diluted earnings per share exclude stock options for the purchase of 107,000 shares of the Company s common stock and 128,000 shares of common stock for the quarters ended July 3, 2005 and June 27, 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 108,000 and 107,000 shares of common stock were excluded from the diluted earnings per share calculation for the six months ended July 3, 2005 and June 27, 2004, respectively.

NOTE E INCOME TAXES

Income tax expense for the second quarter and first six months of 2005 has been provided for based on a 24.1% effective tax rate 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 pre-tax earnings primarily due to employee FICA tip tax credits (a reduction in income tax expense) partially offset by state income taxes.

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NOTE F STOCK BASED COMPENSATION

The Company accounts for its stock compensation arrangements using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25 Accounting for Stock Issued to Employees (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 a credit of $59,000 associated with this option grant for the second quarter of 2004 and $18,000 of expense for the first six 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		Six Months Ended	
	July 3	June 27	**July 3**	June 27
(In thousands, except per share amounts)	**2005**	2004	**2005**	2004
Net income, as reported	**$ 984**	$ 576	**$1,933**	$1,524
Add: Compensation expense (benefit) related to variable stock option award, net of related tax effects		(59)		18
Deduct: Stock-based employee compensation expense determined under fair value methods for all awards, net of related tax effects	**(34)**	(21)	**(67)**	(51)
Pro forma net income	**$ 950**	$ 496	**$1,866**	$1,491
Net income per share:				
Basic, as reported	**$ .15**	$ .09	**$ .30**	$ .24
Basic, pro forma	**$ .15**	$ .08	**$ .29**	$ .23
Diluted, as reported	**$ .14**	$ .09	**$ .28**	$ .22
Diluted, pro forma	**$ .14**	$ .07	**$ .27**	$ .22
Weighted average shares used in computation:				
Basic	**6,469**	6,443	**6,465**	6,440
Diluted	**6,792**	6,776	**6,788**	6,789

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

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 July 3, 2005 was approximately $4.0 million. In connection with the sale of its Mrs. Winner s Chicken & Biscuit restaurant operations in 1989 and certain previous dispositions, the Company also remains secondarily liable for certain real property leases with remaining terms of one to five years. The total estimated amount of lease payments remaining on these 27 leases at July 3, 2005, was approximately $2.7 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 July 3, 2005, was approximately $1.5 million.

In September of 2004, a lawsuit was filed in the U.S. District Court for the Middle District of Tennessee against the Company by the Equal Employment Opportunity Commission alleging that under Title VII of the Civil Rights Act of 1964 and Title I of the Civil Rights Act of 1991 the Company engaged in unlawful employment practices in two of its restaurants by discriminating against male applicants who were allegedly denied employment as bartenders based upon their gender. The lawsuit seeks to compensate those applicants who were allegedly harmed by the Company s practices, seeks injunctive relief against the Company to prevent it from engaging in such practices, and requests that the Company implement and carry out policies which provide equal employment opportunities for male applicants for employment so that the alleged unlawful employment practices would be eradicated. The Company denies all liability with respect to this claim, believes it is without merit and intends to defend it vigorously. The Company has not provided for any liability with respect to this claim as management believes ultimate loss is not probable. However, the Company could incur expenses relating to this matter which could materially adversely affect its results of operations and there exists the risk that an adverse judgment in this claim, the amount of which cannot be estimated, could have a material adverse effect on the Company s financial condition or results of operations.

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 SUBSEQUENT EVENT

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 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 Committee of the Board of Directors, which is comprised solely of independent directors, who were advised by independent counsel. 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

In December 2004, the Financial Accounting Standards Board (FASB) 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. The pro forma disclosures previously permitted under SFAS 123 will no longer be an alternative to financial statement recognition. On April 14, 2005, the Securities and Exchange Commission adopted a rule that amended the compliance dates for SFAS 123R, which the Company will now be required to adopt in the first quarter of fiscal 2006. 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.

On June 29, 2005, the FASB directed the FASB staff to issue a proposed FASB Staff Position (FSP) to address the accounting for rental costs associated with operating leases that are incurred during a construction period. The guidance in the proposed FSP FAS 13-b provides that rental costs associated with ground or building operating leases that are incurred during a construction period shall be recognized as rental expense. The proposed FSP anticipates an effective date beginning with the first reporting period commencing after September 15, 2005 and a lessee shall cease capitalizing rental costs as of the effective date of the FSP for operating lease arrangements entered into prior to the effective date of the FSP. Retrospective application is proposed to be permitted but not required.

The proposed FSP is not expected to have a material effect on the Company for 2005. However, for years subsequent to 2005, the effect of the proposed FSP would, if approved, result in the recognition by the Company of rent expense during the period of construction for each new restaurant developed under a ground or building operating lease.

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

RESULTS OF OPERATIONS

Overview

J. Alexander s Corporation (the Company) owns and operates high volume, upscale casual dining restaurants which offer a contemporary American menu designed to appeal to a wide variety of tastes. 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 July 3, 2005, the Company owned and operated 27 J. Alexander s restaurants in 12 states. One additional restaurant is under construction and is expected to open later in the year.

Income before income tax increased by $459,000 for the second quarter of 2005 and by $302,000 for the first six months compared to the same periods of 2004. Net income increased by $408,000 for the second quarter and by $409,000 for the first six months of 2005 compared to the corresponding 2004 periods. These improvements were due primarily to increases in net sales and a reduction, particularly in the second quarter of 2005, in cost of sales as a percentage of net sales.

The Company s weekly average same store sales for the second quarter and first six months of 2005 increased by 3.6% and 3.8%, 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, guest count losses following the changes were somewhat greater than expected, particularly in the Company s restaurants located in smaller markets, and are of some concern to management. Management expects guest count losses to be in the 1% to 4% range for the next several months and does not expect the Company s same store sales growth rate to increase significantly during that time. Management believes there could be a

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slowing in same store sales growth as a result of the menu pricing changes and consumer concerns regarding higher gasoline prices and other matters, and there can be no assurance that same store sales will continue to increase.

While no pre-opening expense was incurred in the first half of 2005, the Company expects to incur approximately $300,000 of pre-opening costs during the remainder of the year in connection with the opening of a new restaurant which is expected to open in the Fall of 2005. Most of the Company s new restaurants incur operating losses during their early months of operation and such losses can have a significant impact on the Company s operating results.

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		Six Months Ended	
	July 3 2005	June 27 2004	**July 3 2005**	June 27 2004
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Costs and expenses:				
Cost of sales	**32.6**	34.2	**33.1**	33.6
Restaurant labor and related costs	**31.6**	31.2	**31.3**	31.3
Depreciation and amortization of restaurant property and equipment	**3.9**	3.9	**3.8**	3.8
Other operating expenses	**19.0**	18.9	**19.2**	18.6
Total restaurant operating expenses	**87.1**	88.2	**87.3**	87.4
General and administrative expenses	**7.5**	7.3	**7.3**	7.2
Operating income	**5.4**	4.5	**5.4**	5.4
Other income (expense):				
Interest expense, net	**(1.4)**	(1.8)	**(1.4)**	(1.7)
Other, net	**0.2**		**0.1**	0.1
Total other expense	**(1.2)**	(1.7)	**(1.3)**	(1.7)
Income before income taxes	**4.2**	2.8	**4.0**	3.7
Income tax provision	**(1.0)**	(0.9)	**(1.0)**	(1.2)
Net income	**3.2%**	1.9%	**3.1%**	2.5%

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

Restaurants open at end of period	**27**	27		
Weighted average weekly sales per restaurant:				
All restaurants	**$88,000**	$84,800	**$89,700**	$86,100
Same store restaurants	**$89,000**	$85,900	**$91,200**	$87,900

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Net Sales

Net sales increased by $1,106,000, or 3.7%, and $2,471,000, or 4.1%, for the second quarter and first six months of 2005, respectively, as compared to the same periods of 2004. Same store sales on a base of 27 restaurants averaged $89,000 and $91,200 per week during the second quarter and six months ended July 3, 2005, representing increases of 3.6% and 3.8% 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, 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 approximately $18.00 for the second quarter and $17.80 for the first six months of 2005. These amounts represent increases of approximately 7.5% and 7.0% over the same periods of the prior year, attributable in part to price increases for some 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 decreased by approximately 4.0% and 3.1% during the second quarter and first six 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 87.1% and 87.3% of net sales for the second quarter and first six months of 2005, respectively, compared to 88.2% and 87.4% in the corresponding periods of 2004 due to reductions in cost of sales as a percentage of net sales which more than offset increases in other operating expenses, and in the second quarter restaurant labor and related costs, as a percentage of net sales.

Cost of sales decreased to 32.6% of net sales in the second quarter of 2005 from 34.2% in the second quarter of 2004 and 33.5% in the first quarter of 2005, and to 33.1% of net sales in the first six months of 2005 from 33.6% in the corresponding period of 2004, due primarily to increases in menu prices and the change in pricing format to modified ala 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.

Restaurant labor and related costs increased to 31.6% of net sales during the second quarter of 2005 from 31.2% in the same quarter of 2004. Restaurant labor and related costs were 31.3% of net sales for the first six months of both 2005 and 2004. The second quarter increase was due to increases in restaurant management salaries and higher hourly wage rates, including the effect of minimum wage rate increases in two states, and higher benefit costs.

Depreciation and amortization of restaurant property and equipment represented 3.9% of net sales for the second quarters of both 2005 and 2004 and 3.8% of net sales for the first six months of both years.

Other operating expenses increased to 19.0% and 19.2% of net sales for the second quarter and first six months of 2005 from 18.9% and 18.6% of net sales for the same periods of 2004. The increase for the second quarter of 2005 was due primarily to increases in the cost of utilities, general liability insurance, paper supplies and laundry and linen expenses, with a significant portion of these increases being offset by lower credit card fees resulting from a change in the Company s credit card processor. For the first six months of 2005, other operating expenses increased primarily due to increases in the same items as noted for the second quarter, with higher repairs and maintenance expenditures, china and smallwares costs and certain other operating expenses also contributing to the increase.

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 $2,326,000 in the second quarter of 2005 compared to $2,177,000 in the second quarter of 2004, an increase of $149,000, or 6.8%. General and administrative expenses increased by $250,000, or 5.7%, to $4,616,000 during the first six months of 2005 from $4,366,000 during the corresponding period of 2004.

For the second quarter and first six months of 2005, general and administrative expenses included increases, as compared to the same periods of 2004, in salary and training expense and other personnel related expenses which were partially offset by lower accruals for bonuses for corporate staff. General and administrative expenses for the second quarter of 2005 also increased due to a reduction in non-cash compensation expense in the second quarter of 2004 in connection with a stock option grant accounted for as a variable plan award.

As a percentage of net sales, general and administrative expenses increased to 7.5% for

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the second quarter of 2005 from 7.3% in the same period of 2004 and to 7.3% for the first six months of 2005 compared to 7.2% for the comparable period in 2004.

Other Income (Expense)

Net interest expense decreased during the 2005 periods compared to the corresponding periods of 2004, the result of a reduction in interest expense in 2005 resulting from lower borrowings outstanding and an increase in capitalized interest costs and higher investment income due to higher levels of invested funds and higher interest rates.

Income Taxes

The Company s estimated effective income tax rate of 24.1% 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 second quarter and first six 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. Also, 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 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 $2,506,000 and $3,941,000 during the first six 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 July 3, 2005 were $6,968,000. The Company currently plans to open one new restaurant in 2005 and management estimates that capital expenditures for the year will be approximately $7.3 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 July 3, 2005.

Management believes cash and cash equivalents on hand combined with cash flow from

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operations for the year will be adequate to meet the Company s financing needs for 2005 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.

While the Company at times operates with a working capital deficit, management does not believe such deficits impair the overall financial condition of the Company. Many companies in the restaurant industry operate with a working capital deficit because guests pay for their purchases with cash or by credit card at the time of sale while trade payables for food and beverage purchases and other obligations related to restaurant operations are not typically due for some time after the sale takes place. Since requirements for funding accounts receivable and inventories are relatively insignificant, virtually all cash generated by operations is available to meet current obligations.

The Company was in compliance with the financial covenants of its debt agreements as of July 3, 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 August 17, 2005, the Company had no financing transactions, arrangements or other relationships with any unconsolidated affiliated entities or related parties. Additionally, the Company is not a party to any financing arrangements involving synthetic leases or trading activities involving commodity contracts. Contingent lease commitments are discussed in Note G Commitments and Contingencies to the Condensed Consolidated Financial Statements.

CONTRACTUAL OBLIGATIONS

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.

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The only contractual obligation entered into during the first six 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 July 3, 2005, the Company s supplier was under contract to purchase approximately $9.7 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 July 3, 2005, is as follows:

Wendy s restaurants (39 leases)	$5,500,000
Mrs. Winner s Chicken & Biscuits restaurants (27 leases)	2,700,000
Total contingent liability related to assigned leases	$8,200,000

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 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.

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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 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

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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.

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.

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. 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 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 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

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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.

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.

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

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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. 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. Further, the taking of a restaurant property, or a portion of a restaurant property, by a governmental jurisdiction exercising its right of eminent domain could adversely affect the Company s results of operations.

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.

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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, especially two of the newer restaurants that are not performing at satisfactory levels; changes in business or economic conditions, including rising food costs and product shortages; 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 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

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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 4. Submission of Matters to a Vote of Security Holders

(a) The Annual Meeting of the Company was held on May 27, 2005.

(b) Pursuant to Instruction 3 to Item 4, no response is required to this item.

(c) At the Annual Meeting conducted May 27, 2005, the shareholders voted on the election of directors. A summary of the votes is as follows:

Directors:	For	Withhold Authority
Duncan	6,003,145	110,903
Fritts	6,021,585	92,463
Rector	6,020,695	93,353
Reed	5,942,845	171,203
Steakley	6,002,595	111,453
Stout	5,918,059	195,959

(d) Not applicable.

Item 6. Exhibits

(a) Exhibits:

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: August 17, 2005	/s/ Lonnie J. Stout II Lonnie J. Stout II Chairman, President and Chief Executive Officer (Principal Executive Officer)
Date: August 17, 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

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