ALEXANDERS J CORP
Form 10-Q
November 12, 2003

**Table of Contents**

# FORM 10-Q

## SECURITIES AND EXCHANGE COMMISSION

### Washington, D.C. 20549

(Mark One)

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

For quarterly period ended September 28, 2003

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)

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

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

Yes x No 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 x

Common Stock Outstanding 6,433,041 shares at November 10, 2003.

Page 1 of 23 pages.

**TABLE OF CONTENTS**

Table of Contents

## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements

**J. Alexander s Corporation and Subsidiaries**
**Consolidated Condensed Balance Sheets**
**(Dollars in thousands, except per share amount)**

| | September 28 2003 | December 29 2002 |
|---|---|---|
| | (Unaudited) | |
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | **$ 742** | $ 10,525 |
| Accounts and notes receivable, including current portion of direct financing leases | **108** | 97 |
| Inventories | **895** | 790 |
| Deferred income taxes | **488** | 488 |
| Prepaid expenses and other current assets | **814** | 1,000 |
| TOTAL CURRENT ASSETS | **3,047** | 12,900 |
| OTHER ASSETS | **1,012** | 951 |
| PROPERTY AND EQUIPMENT, at cost, less allowances for depreciation and amortization of $29,042 and $26,247 at September 28, 2003, and December 29, 2002, respectively | **73,530** | 69,521 |
| DEFERRED INCOME TAXES | **712** | 712 |
| DEFERRED CHARGES, less amortization | **915** | 949 |
| | **$ 79,216** | $ 85,033 |

-2-

Table of Contents

| | September 28 2003 | December 29 2002 |
|---|---|---|
| | (Unaudited) | |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | **$ 3,670** | $ 3,035 |
| Accrued expenses and other current liabilities | **3,851** | 4,982 |
| Unearned revenue | **1,848** | 2,692 |
| Current portion of long-term debt and obligations under capital leases | **640** | 6,786 |
| TOTAL CURRENT LIABILITIES | **10,009** | 17,495 |
| LONG-TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES, net of portion classified as current | **24,825** | 24,451 |
| OTHER LONG-TERM LIABILITIES | **2,497** | 2,288 |
| STOCKHOLDERS EQUITY | | |
| Common Stock, par value $.05 per share: Authorized 10,000,000 shares; issued and outstanding 6,433,041 and 6,660,535 shares at September 28, 2003, and December 29, 2002, respectively | **322** | 333 |
| Preferred Stock, no par value: Authorized 1,000,000 shares; none issued | | |
| Additional paid-in capital | **33,613** | 34,357 |
| Retained earnings | **9,058** | 7,527 |
| | **42,993** | 42,217 |
| Note receivable Employee Stock Ownership Plan | **(536)** | (688) |
| Employee notes receivable 1999 Loan Program | **(572)** | (730) |
| TOTAL STOCKHOLDERS EQUITY | **41,885** | 40,799 |
| | **$ 79,216** | $ 85,033 |

See notes to consolidated condensed financial statements.

**Table of Contents**

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

| | Nine Months Ended | | Quarter Ended | |
|---|---|---|---|---|
| | **Sept. 28 2003** | **Sept. 29 2002** | **Sept. 28 2003** | **Sept. 29 2002** |
| Net sales | **$78,697** | $73,680 | **$25,832** | $23,698 |
| Costs and expenses: | | | | |
| Cost of sales | **25,345** | 23,338 | **8,418** | 7,570 |
| Restaurant labor and related costs | **25,751** | 24,644 | **8,519** | 8,073 |
| Depreciation and amortization of restaurant property and equipment | **3,201** | 3,295 | **1,065** | 1,099 |
| Other operating expenses | **14,332** | 13,849 | **4,814** | 4,651 |
| Total restaurant operating expenses | **68,629** | 65,126 | **22,816** | 21,393 |
| General and administrative expenses | **5,888** | 5,915 | **1,968** | 1,903 |
| Pre-opening expense | **526** | 42 | **236** | 42 |
| Operating income | **3,654** | 2,597 | **812** | 360 |
| Other income (expense): | | | | |
| Interest expense, net | **(1,594)** | (850) | **(500)** | (254) |
| Other, net | **(19)** | (60) | **18** | (28) |
| Total other expense | **(1,613)** | (910) | **(482)** | (282) |
| Income before income taxes and cumulative effect of change in accounting principle | **2,041** | 1,687 | **330** | 78 |
| Income tax (provision) benefit | **(510)** | (742) | **55** | (34) |
| Income before cumulative effect of change in accounting principle | **1,531** | 945 | **385** | 44 |
| Cumulative effect of change in accounting principle | | (171) | | |
| Net income | **$ 1,531** | $ 774 | **$ 385** | $ 44 |
| Basic earnings per share: | | | | |
| Income before cumulative effect of change in accounting principle | **$ .24** | $ .14 | **$ .06** | $ .01 |
| Cumulative effect of change in accounting principle | | (.03) | | |
| Basic earnings per share | **$ .24** | $ .11 | **$ .06** | $ .01 |
| Diluted earnings per share: | | | | |
| Income before cumulative effect of change in accounting principle | **$ .23** | $ .14 | **$ .06** | $ .01 |
| Cumulative effect of change in accounting principle | | (.03) | | |
| Diluted earnings per share | **$ .23** | $ .11 | **$ .06** | $ .01 |

See notes to consolidated condensed financial statements.

**Table of Contents**

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

| | Nine Months Ended | |
|---|---|---|
| | **Sept. 28 2003** | **Sept. 29 2002** |
| Net cash provided by operating activities | **$ 3,309** | $ 4,359 |
| Net cash used by investing activities: | | |
| Purchase of property and equipment | **(6,279)** | (4,437) |
| Other investing activities | **(68)** | (55) |
| | **(6,347)** | (4,492) |
| Net cash (used) provided by financing activities: | | |
| Payments on debt and obligations under capital leases | **(6,647)** | (1,723) |
| Proceeds under bank line of credit agreement | **3,200** | 29,586 |
| Payments under bank line of credit agreement | **(2,700)** | (28,625) |
| Common stock repurchased | **(848)** | |
| Reduction of employee notes receivable 1999 Loan Program | **158** | |
| Increase in bank overdraft | | 739 |
| Other | **92** | (97) |
| | **(6,745)** | (120) |
| Decrease in cash and cash equivalents | **(9,783)** | (253) |
| Cash and cash equivalents at beginning of period | **10,525** | 1,035 |
| Cash and cash equivalents at end of period | **$ 742** | $ 782 |

See notes to consolidated condensed financial statements.

Table of Contents

**J. Alexander s Corporation and Subsidiaries**
**Notes to Consolidated Condensed Financial Statements (Unaudited)**

## NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. Certain reclassifications have been made in the prior year s consolidated condensed financial statements to conform to the 2003 presentation. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter and nine months ended September 28, 2003, are not necessarily indicative of the results that may be expected for the fiscal year ending December 28, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the J. Alexander s Corporation s (the Company s ) annual report on Form 10-K for the fiscal year ended December 29, 2002.

## NOTE B EARNINGS PER SHARE

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

| (In thousands, except per share amounts) | Nine Months Ended | | Quarter Ended | |
|---|---|---|---|---|
| | Sept. 28 2003 | Sept. 29 2002 | Sept. 28 2003 | Sept. 29 2002 |
| **Numerator:** | | | | |
| Net income (numerator for basic earnings per share) | **$1,531** | $ 774 | **$ 385** | $ 44 |
| Effect of dilutive securities | | | | |
| Net income after assumed conversions (numerator for diluted earnings per share) | **$1,531** | $ 774 | **$ 385** | $ 44 |
| **Denominator:** | | | | |
| Weighted average shares (denominator for basic earnings per share) | **6,504** | 6,780 | **6,424** | 6,764 |
| Effect of dilutive securities: | | | | |
| Employee stock options | **123** | 59 | **208** | 61 |
| Adjusted weighted average shares and assumed conversions (denominator for diluted earnings per share) | **6,627** | 6,839 | **6,632** | 6,825 |
| Basic earnings per share | **$ .24** | $ .11 | **$ .06** | $ .01 |
| Diluted earnings per share | **$ .23** | $ .11 | **$ .06** | $ .01 |

In situations where the exercise price of outstanding employee stock options is greater than the average market price of common shares, such options are excluded from the

**Table of Contents**

computation of diluted earnings per share because of their antidilutive impact. For the quarter ended September 28, 2003, options to purchase 206,000 shares of common stock, at prices ranging from $4.97 to $11.69, were excluded from the computation of diluted earnings per share due to their antidilutive effect. During the corresponding period of 2002, options to purchase 247,000 shares of common stock, at prices ranging from $3.44 to $11.69, were similarly excluded from the computation of diluted earnings per share.

For the nine months ended September 28, 2003 and September 29, 2002, respectively, options to purchase 350,000 and 417,000 shares of common stock were excluded from the diluted earnings per share calculation, at prices ranging from $3.42 to $11.69 (2003) and $2.75 to $11.69 (2002).

**NOTE C INCOME TAXES**

The Company s provisions for income taxes for the first nine months of 2003 and the nine months and third quarter of 2002 result from estimated federal alternative minimum tax (AMT) and state income taxes payable. During the third quarter of 2003, the Company reduced its estimated effective annual income tax rate from 33% of income before taxes and cumulative effect of change in accounting principle to 25%. The impact of the effective rate reduction was to decrease the income tax provisions for the nine months and quarter ended September 28, 2003 by $164,000, resulting in a tax benefit of $55,000 for the quarter ended September 28, 2003. As a result, diluted earnings per share for the nine months and third quarter ended September 28, 2003 were increased by $.02 and $.03, respectively.

The effective tax rates result from the AMT rate being applied to the Company s pre-tax accounting income after adding back certain tax preference items as well as permanent differences and timing differences in book and tax income. The Company maintains a significant valuation allowance on its deferred tax assets, and no benefit is recognized in the current year s income tax provision with respect to the AMT credit carryforward or other tax assets generated for the year. Further, because of the application of AMT, the Company at its current taxable income level is unable to take advantage of certain tax carryforwards that it has accumulated.

**NOTE D LONG-TERM DEBT**

In October 2002, the Company obtained $25,000,000 of long-term mortgage financing. The mortgage loan has an effective annual interest rate, including the effect of the amortization of deferred issue costs, of 8.6% and is payable in equal monthly installments of principal and interest of approximately $212,000 through November 2022. At September 28, 2003, the mortgage loan had an outstanding balance of $24,571,000. A portion of the proceeds from this loan was used to pay off the outstanding balance of $15,470,000 on the Company s bank line of credit, terminating that facility. Remaining funds were used primarily for retiring the Company s $6,250,000 Convertible Subordinated Debentures and for new restaurant development.

On May 12, 2003, the Company entered into a $5 million secured bank line of credit agreement which is available for financing capital expenditures related to the development of new restaurants and for general operating purposes. Borrowings outstanding under this line of credit totaled $500,000 at September 28, 2003. Provisions of the line of credit agreement require that a minimum fixed charge coverage ratio be maintained and that the Company s leverage ratio

Table of Contents

not exceed a specified level. The Company s ability to incur additional debt outside of the line of credit is also restricted. The line of credit is secured by the real estate of two of the Company s restaurant locations with an aggregate book value of $8,197,000 at September 28, 2003 and bears interest on the outstanding borrowings at the rate of LIBOR plus a spread of two to four percent, depending on the leverage ratio. 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.

In connection with a new J. Alexander s restaurant to be opened in the fourth quarter of 2003, the Company recorded a capital building lease asset and a capital building lease obligation in the amount of $375,000 during the quarter ended September 28, 2003. For cash flow purposes, this transaction was considered a non-cash investing and financing activity.

**NOTE E STOCK BASED COMPENSATION**

The Company accounts for its stock compensation arrangements using the intrinsic value method in accordance with Accounting Principles Board (APB) Opinion No. 25 Accounting for Stock Issued to Employees and, accordingly, typically recognizes no compensation expense for such arrangements.

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.

| | Nine Months Ended | | Quarter Ended | |
|---|---|---|---|---|
| | Sept 28 2003 | Sept 29 2003 | Sept 28 2003 | Sept 29 2002 |
| (In thousands, except per share amounts) | | | | |
| Net income, as reported | **$ 1,531** | $ 774 | **$ 385** | $ 44 |
| Deduct: Total stock-based employee compensation expense determined under fair value methods for all awards, net of related tax effects | **(66)** | (71) | **(29)** | (23) |
| Pro forma net income | **$ 1,465** | $ 703 | **$ 356** | $ 21 |
| Net income per share: | | | | |
| Basic, as reported | **$ .24** | $ .11 | **$ .06** | $ .01 |
| Basic, pro forma | **$ .23** | $ .10 | **$ .06** | $ |
| Diluted, as reported | **$ .23** | $ .11 | **$ .06** | $ .01 |
| Diluted, pro forma | **$ .22** | $ .10 | **$ .05** | $ |
| Weighted average shares used in computation: | | | | |
| Basic | **6,504** | 6,780 | **6,424** | 6,764 |
| Diluted | **6,627** | 6,839 | **6,632** | 6,825 |

**Table of Contents**

As required, the pro forma disclosures above include options granted since January 1, 1995. Consequently, the effects of applying SFAS No. 123 for providing pro forma disclosures may not be representative of the effects on reported net income for future years until all options outstanding are included in the pro forma disclosures. For purposes of pro forma disclosures, the estimated fair value of stock-based compensation plans and other options is amortized to expense primarily over the vesting peri