

ALEXANDERS J CORP  
Form 10-Q  
August 15, 2007

**Table of Contents**

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

(Mark One)

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

For quarterly period ended July 1, 2007

**OR**

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

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

**Commission file number 1-8766**

**J. ALEXANDER S CORPORATION**

(Exact name of registrant as specified in its charter)

Tennessee

62-0854056

(State or other jurisdiction of incorporation or organization)

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

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

(Address of principal executive offices)

(Zip Code)

(615)269-1900

(Registrant's telephone number, including area code)

N/A

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Common Stock Outstanding 6,638,015 shares at August 14, 2007.

**TABLE OF CONTENTS**

**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Item 4. Controls and Procedures

**PART II. OTHER INFORMATION**

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

Item 6. Exhibits

**SIGNATURES**

Ex-31.1 Section 302 Certification of the CEO

Ex-31.2 Section 302 Certification of the CFO

Ex-32.1 Section 906 Certification of the CEO and CFO

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

	<b>July 1 2007</b>	December 31 2006
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	<b>\$ 14,732</b>	\$ 14,688
Accounts and notes receivable	<b>1,876</b>	2,252
Inventories	<b>1,124</b>	1,319
Deferred income taxes	<b>1,079</b>	1,079
Prepaid expenses and other current assets	<b>1,695</b>	1,192
<b>TOTAL CURRENT ASSETS</b>	<b>20,506</b>	20,530
<b>OTHER ASSETS</b>	<b>1,298</b>	1,249
<b>PROPERTY AND EQUIPMENT</b> , at cost, less accumulated depreciation and amortization of \$43,490 and \$41,911 at July 1, 2007 and December 31, 2006, respectively	<b>72,864</b>	71,815
<b>DEFERRED INCOME TAXES</b>	<b>5,055</b>	5,055
<b>DEFERRED CHARGES</b> , less accumulated amortization	<b>719</b>	701
	<b>\$ 100,442</b>	\$ 99,350

**Table of Contents**

	<b>July 1 2007</b>	December 31 2006
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	<b>\$ 5,095</b>	\$ 4,962
Accrued expenses and other current liabilities	<b>3,800</b>	5,464
Unearned revenue	<b>1,595</b>	2,348
Current portion of long-term debt and obligations under capital leases	<b>919</b>	889
<b>TOTAL CURRENT LIABILITIES</b>	<b>11,409</b>	13,663
<b>LONG-TERM DEBT AND OBLIGATIONS UNDER CAPITAL LEASES, net of portion classified as current</b>	<b>21,836</b>	22,304
<b>OTHER LONG-TERM LIABILITIES</b>	<b>5,811</b>	5,553
<b>STOCKHOLDERS EQUITY</b>		
Common Stock, par value \$.05 per share: Authorized 10,000,000 shares; issued and outstanding 6,638,015 and 6,569,305 shares at July 1, 2007 and December 31, 2006, respectively	<b>332</b>	329
Preferred Stock, no par value: Authorized 1,000,000 shares; none issued		
Additional paid-in capital	<b>35,480</b>	34,905
Retained earnings	<b>25,574</b>	22,596
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>61,386</b>	57,830
	<b>\$ 100,442</b>	\$ 99,350

See notes to condensed consolidated financial statements.

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

	Quarter Ended		Six Months Ended	
	July 1 2007	July 2 2006	July 1 2007	July 2 2006
Net sales	\$ 34,742	\$ 33,341	\$ 71,267	\$ 68,579
Costs and expenses:				
Cost of sales	11,279	10,816	22,993	22,303
Restaurant labor and related costs	11,138	10,810	22,362	21,809
Depreciation and amortization of restaurant property and equipment	1,298	1,307	2,577	2,605
Other operating expenses	6,911	6,605	13,835	13,464
Total restaurant operating expenses	30,626	29,538	61,767	60,181
General and administrative expenses	2,502	2,488	4,810	4,879
Pre-opening expense	56		56	
Operating income	1,558	1,315	4,634	3,519
Other income (expense):				
Interest expense, net	(281)	(400)	(592)	(825)
Other, net	21	22	38	51
Total other expense	(260)	(378)	(554)	(774)
Income before income taxes	1,298	937	4,080	2,745
Income tax provision	(345)	(226)	(1,102)	(597)
Net income	\$ 953	\$ 711	\$ 2,978	\$ 2,148
Basic earnings per share	\$ .14	\$ .11	\$ .45	\$ .33
Diluted earnings per share	\$ .14	\$ .10	\$ .43	\$ .31

See notes to condensed consolidated financial statements.

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

	Six Months Ended	
	<b>July 1 2007</b>	July 2 2006
Net cash provided by operating activities:		
Net income	<b>\$ 2,978</b>	\$ 2,148
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	<b>2,618</b>	2,649
Changes in working capital accounts	<b>(1,771)</b>	(985)
Other operating activities	<b>460</b>	475
	<b>4,285</b>	4,287
Net cash used in investing activities:		
Purchase of property and equipment	<b>(3,298)</b>	(1,831)
Other investing activities	<b>(46)</b>	(60)
	<b>(3,344)</b>	(1,891)
Net cash used in financing activities:		
Payments on debt and obligations under capital leases	<b>(438)</b>	(406)
Decrease in bank overdraft	<b>(317)</b>	(987)
Payment of cash dividend	<b>(657)</b>	(653)
Exercise of stock options	<b>373</b>	50
Payment of required withholding taxes on behalf of an employee in connection with the net share settlement of an employee stock option exercised	<b>(101)</b>	-
Excess tax benefit related to share-based compensation	<b>243</b>	
	<b>(897)</b>	(1,996)
Increase in cash and cash equivalents	<b>44</b>	400
Cash and cash equivalents at beginning of period	<b>14,688</b>	8,200
Cash and cash equivalents at end of period	<b>\$ 14,732</b>	\$ 8,600
Supplemental disclosures of non-cash items:		
Property and equipment obligations accrued at beginning of period	<b>\$ 123</b>	\$ 550
Property and equipment obligations accrued at end of period	<b>\$ 652</b>	\$ 340
See notes to condensed consolidated financial statements.		





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

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. Certain reclassifications have been made in the prior year's condensed consolidated financial statements to conform to the 2007 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 1, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending December 30, 2007. 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 December 31, 2006.

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

**NOTE B EARNINGS PER SHARE**

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

	Quarter Ended		Six Months Ended	
	July 1 2007	July 2 2006	July 1 2007	July 2 2006
<b>Numerator:</b>				
Net income (numerator for basic and diluted earnings per share)	\$ 953,000	\$ 711,000	\$ 2,978,000	\$ 2,148,000
<b>Denominator:</b>				
Weighted average shares (denominator for basic earnings per share)	6,611,000	6,542,000	6,591,000	6,537,000
Effect of dilutive securities	398,000	293,000	363,000	291,000
Adjusted weighted average shares (denominator for diluted earnings per share)	7,009,000	6,835,000	6,954,000	6,828,000
Basic earnings per share	\$ .14	\$ .11	\$ .45	\$ .33
Diluted earnings per share	\$ .14	\$ .10	\$ .43	\$ .31

The calculations of diluted earnings per share exclude stock options for the purchase of 300,000 shares and 113,000 shares of the Company's common stock for the quarters ended July 1, 2007 and July 2, 2006, respectively, because the effect of their inclusion would be anti-dilutive. Anti-dilutive options to purchase 150,000 and 257,000 shares of common stock were

**Table of Contents**

excluded from the diluted earnings per share calculation for the six months ended July 1, 2007 and July 2, 2006, respectively.

**NOTE C INCOME TAXES**

In 2006, the Financial Accounting Standards Board ( FASB ) issued FASB Interpretation No. 48, Accounting for Uncertainties in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ), which clarified the accounting and disclosure for uncertainty in income tax positions, as defined. FIN 48 seeks to reduce the diversity in practice associated with certain aspects of the recognition and measurement related to accounting for income taxes. The Company was subject to the provisions of FIN 48 as of January 1, 2007, and has analyzed filing positions in all of the federal and state jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions.

Periods subject to examination for the Company s federal return are the 2003 through 2006 tax years. The federal return for 2003, while remaining open for examination, has been previously reviewed by the Internal Revenue Service. The periods subject to examination for the Company s state returns are the tax years 2002 through 2006.

The Company believes that its income tax filing positions and deductions will be sustained on audit and does not anticipate any adjustments that will result in a material change to its financial position. Therefore, no reserves for uncertain income tax positions have been recorded pursuant to FIN 48. In addition, the Company did not record a cumulative effect adjustment related to the adoption of FIN 48.

The Company s accounting policy with respect to interest and penalties arising from income tax settlements is to recognize them as part of the provision for income taxes. There were no interest or penalty amounts accrued as of January 1, 2007.

Income tax expense for the first six months of 2007 has been provided for based on an estimated effective tax rate of approximately 27% expected to be applicable for the 2007 fiscal year. Income tax expense for the first six months of 2006 was provided for based on an estimated effective tax rate of approximately 24% and a favorable adjustment of \$67,000 recorded during the first quarter of 2006 which represented a discrete item related to correction of a prior year s federal income tax return. The effective income tax rates differ from applying the statutory federal income tax rate of 34% to income before taxes primarily due to the effect of employee FICA tip tax credits (a reduction in income tax expense) partially offset by the effect of state income taxes.

**NOTE D STOCK BASED COMPENSATION**

Stock-based compensation expense totaled \$51,000 and \$30,000 for the quarters ended July 1, 2007 and July 2, 2006, respectively, and \$63,000 and \$56,000 for the six-month periods ended July 1, 2007 and July 2, 2006, respectively. At July 1, 2007, the Company had \$1,210,000 of unrecognized compensation cost related to share-based payments which is expected to be recognized over the remaining weighted average vesting period of approximately 3.9 years.

**Table of Contents**

Stock option activity during the first six months of 2007 was as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2007	900,960	\$ 5.76		
Granted	300,000	\$ 14.20		
Exercised	(76,300)	\$ 4.90		
Expired or cancelled	(30,000)	\$ 8.75		
Outstanding at July 1, 2007	1,094,660	\$ 8.05	5.7	\$7,147,000
Exercisable at July 1, 2007	707,660	\$ 5.42	4.9	\$6,426,000

The total intrinsic value of options exercised was \$590,000 and \$637,000 for the quarter and six-month periods ended July 1, 2007 compared to \$38,000 and \$72,000, respectively, for the quarter and six-month periods ended July 2, 2006. At July 1, 2007, a total of 143,169 shares were available for future grant.

During the quarter ended July 1, 2007, 300,000 options were granted to employees of the Company. The weighted-average estimated fair value of options granted, and the related assumptions used in the Black-Scholes option pricing model to determine those values, were as follows:

Dividend yield	0.8%
Volatility factor	.3124
Risk-free interest rate	4.55%
Expected life of options (in years)	4.75
Weighted-average grant date fair value	\$ 3.85

There were no options issued during the second quarter of 2006.

**NOTE E COMMITMENTS AND CONTINGENCIES**

As a result of the disposition of its Wendy's restaurant operations in 1996, the Company remains secondarily liable for certain real property leases with remaining terms of one to nine years. The total estimated amount of lease payments remaining on these 20 leases at July 1, 2007 was approximately \$2.6 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 26 leases at July 1, 2007, was approximately \$1.2 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 1, 2007, was approximately \$0.9 million.

**Table of Contents**

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 F RECENT ACCOUNTING PRONOUNCEMENTS**

In 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its 2008 Consolidated Financial Statements.

In February of 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument by instrument basis which are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. This statement is effective as of the beginning of a company's first fiscal year after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159 on its 2008 Consolidated Financial Statements.

In 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the Company recognize the impact of a tax position in the Company's financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 became effective as of the beginning of the Company's 2007 fiscal year and had no impact on the Company's Condensed Consolidated Financial Statements upon adoption. See Note C Income Taxes for further discussion of the Company's adoption of FIN 48.

**Table of Contents**

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**  
**RESULTS OF OPERATIONS**

**Overview**

J. Alexander's Corporation (the Company) operates upscale casual dining restaurants. At July 1, 2007, the Company operated 28 J. Alexander's restaurants in 12 states. The Company's net sales are derived primarily from the sale of food and alcoholic beverages in its restaurants, including sales recorded upon redemption of gift cards sold by the Company.

The Company's strategy is for J. Alexander's restaurants to compete in the restaurant industry by providing guests with outstanding professional service, high-quality food, and an attractive environment with an upscale, high-energy ambiance. Quality is emphasized throughout J. Alexander's operations and substantially all menu items are prepared on the restaurant premises using fresh, high-quality ingredients. The Company's goal is for each J. Alexander's restaurant to be perceived by guests in its market as a market leader in each of the categories above. J. Alexander's restaurants offer a contemporary American menu designed to appeal to a wide range of consumer tastes. However, the Company believes its restaurants are most popular with more discriminating guests with higher discretionary incomes. J. Alexander's typically does not advertise in the media and relies on each restaurant to increase sales by building its reputation as an outstanding dining establishment. The Company has generally been successful in achieving sales increases in its restaurants over time using this strategy.

The restaurant industry is highly competitive and is often affected by changes in consumer tastes and discretionary spending patterns; changes in general economic conditions; public safety conditions or concerns; demographic trends; weather conditions; the cost of food products, labor and energy; and governmental regulations. Because of these factors, the Company's management believes it is of critical importance to the Company's success to effectively execute the Company's operating strategy and to constantly evolve and refine the critical conceptual elements of J. Alexander's restaurants in order to distinguish them from other casual dining competitors and maintain the Company's competitive position.

The restaurant industry is also characterized by high capital investment for new restaurants and relatively high fixed or semi-variable restaurant operating expenses. Because a significant portion of restaurant operating expenses are fixed or semi-variable in nature, incremental sales in existing restaurants are generally expected to make a significant contribution to restaurant profitability because many restaurant costs and expenses are not expected to increase at the same rate as sales. Improvements in profitability resulting from incremental sales growth can be negatively affected, however, by inflationary increases in operating costs and other factors. Management believes that excellence in restaurant operations, and particularly providing exceptional guest service, will increase net sales in the Company's existing restaurants and will support menu pricing levels which allow the Company to achieve reasonable operating margins while absorbing the higher costs of providing high-quality dining experiences and operating cost increases.

**Table of Contents**

Incremental sales for existing restaurants are generally measured in the restaurant industry by computing the same store sales increase, which represents the increase in sales for the same group of restaurants for comparable reporting periods. Same store sales increases can be generated by increases in guest counts and increases in the average check per guest. The average check per guest can be affected by menu price changes and the mix of menu items sold. Management regularly analyzes guest count, average check and product mix trends for each restaurant in order to improve menu pricing and product offering strategies. Management believes it is important to maintain or increase guest counts and average guest checks over time in order to continue to improve the Company's profitability.

Other key indicators which can be used to evaluate and understand the Company's restaurant operations include cost of sales, restaurant labor and related costs and other operating expenses, with a focus on these expenses as a percentage of net sales. Since the Company uses primarily fresh ingredients for food preparation, the cost of food commodities can vary significantly from time to time due to a number of factors. The Company generally expects to increase menu prices in order to offset the increase in the cost of food products as well as increases which the Company experiences in labor and related costs and other operating expenses, but attempts to balance these increases with the goals of providing reasonable value to the Company's guests and maintaining same store sales growth. Management believes that restaurant operating margin, which is computed by subtracting total restaurant operating expenses from net sales and dividing by net sales, is an important indicator of the Company's success in managing its restaurant operations because it is affected by same store sales growth, menu pricing strategy, and the management and control of restaurant operating expenses in relation to net sales.

The opening of new restaurants by the Company can 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 or under development in a particular year can have a significant impact on the Company's operating results. While no pre-opening expense was incurred in 2006 because no new restaurants were under development during that time, the Company estimates that it will incur pre-opening expense of between \$1,000,000 and \$1,200,000 in 2007 primarily in connection with two new restaurants expected to be opened during the year. This estimate includes rent expense to be incurred during the construction period for these restaurants after the Company takes possession of the leased premises.

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-variable in nature, management believes the sales required for a J. Alexander's restaurant to break even are relatively high compared to many other casual dining concepts and that 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 attractive financial returns on the Company's investments in new restaurants. The Company expects to open two new restaurants in 2007 and three new restaurants in 2008.

**Table of Contents**

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 1 2007	July 2 2006	July 1 2007	July 2 2006
Net sales	<b>100.0%</b>	100.0%	<b>100.0%</b>	100.0%
Costs and expenses:				
Cost of sales	<b>32.5</b>	32.4	<b>32.3</b>	32.5
Restaurant labor and related costs	<b>32.1</b>	32.4	<b>31.4</b>	31.8
Depreciation and amortization of restaurant property and equipment	<b>3.7</b>	3.9	<b>3.6</b>	3.8
Other operating expenses	<b>19.9</b>	19.8	<b>19.4</b>	19.6
Total restaurant operating expenses	<b>88.2</b>	88.6	<b>86.7</b>	87.8
General and administrative expenses	<b>7.2</b>	7.5	<b>6.7</b>	7.1
Pre-opening expense	<b>0.2</b>		<b>0.1</b>	
Operating income	<b>4.5</b>	3.9	<b>6.5</b>	5.1
Other income (expense):				
Interest expense, net	<b>(0.8)</b>	(1.2)	<b>(0.8)</b>	(1.2)
Other, net	<b>0.1</b>	0.1	<b>0.1</b>	0.1
Total other expense	<b>(0.7)</b>	(1.1)	<b>(0.8)</b>	(1.1)
Income before income taxes	<b>3.7</b>	2.8	<b>5.7</b>	4.0
Income tax provision	<b>(1.0)</b>	(0.7)	<b>(1.5)</b>	(0.9)
Net income	<b>2.7%</b>	2.1%	<b>4.2%</b>	3.1%

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

Restaurants open at end of period	<b>28</b>	28		
Weighted average weekly sales per restaurant (1):				
All restaurants	<b>\$95,400</b>	\$91,500	<b>\$97,800</b>	\$94,100
Percent increase	<b>+4.3%</b>		<b>+3.9%</b>	
Same store restaurants (2)	<b>\$95,200</b>	\$91,300	<b>\$97,500</b>	\$93,700
Percent increase	<b>+4.3%</b>		<b>+4.1%</b>	

(1) 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 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. Revenue associated with reductions in liabilities for gift cards which are considered to be only remotely likely to be redeemed is not included in the calculation of



weighted  
average weekly  
sales per  
restaurant or  
weighted  
average weekly  
same store sales  
per restaurant.

- (2) Includes the  
twenty-eight  
restaurants open  
for more than  
eighteen  
months.

**Table of Contents****Net Sales**

Net sales increased by \$1,401,000, or 4.2%, and \$2,688,000, or 3.9%, for the second quarter and first six months of 2007, respectively, compared to the same periods of 2006. These increases were due to increases in the average check per guest which were partially offset by decreases in guest counts.

Management estimates the average check per guest, including alcoholic beverage sales, increased by 7.2% to \$24.14 in the second quarter of 2007 from \$22.52 in the second quarter of 2006 and by 7.9% to \$24.25 for the first half of 2007 compared to \$22.48 for the first half of 2006. Management believes these increases were the result of a combination of factors including higher menu prices, increased wine sales, which management believes are due to additional emphasis placed on the Company's wine feature program, and emphasis on the Company's special menu features which generally are priced higher than many of the Company's other menu offerings.

Management estimates that menu prices increased by approximately 3.7% and 3.9% in the second quarter and first six months of 2007, respectively, over the corresponding periods of 2006. These estimates reflect the effect of menu price increases without considering any change in product mix because of price increases and may not reflect amounts effectively paid by the customer.

Management estimates that weekly average guest counts decreased on a same store basis by approximately 2.7% and 3.8% in the second quarter and first six months of 2007, respectively, compared to the same periods of 2006. Management believes these decreases were due to higher menu prices, generally weak economic conditions affecting certain restaurants in Ohio, increases in prices of other products and services purchased by consumers resulting in less discretionary income for spending in restaurants, and, in a small number of locations, to competitive factors and operational issues.

The Company has experienced a slowing of same store sales growth in the third quarter of 2007 to date. Because same store sales increases are generally expected to increase restaurant operating margins, or offset the effect of cost increases, if this trend continues, management believes that restaurant operating margins for the last half of 2007 may decline compared to the same period of 2006 because of higher input costs being incurred by the Company, which management is hesitant at the present time to pass on to guests through additional menu price increases because of inflationary pressures faced by consumers and declining guest counts being experienced by the Company.

**Restaurant Costs and Expenses**

Total restaurant operating expenses decreased to 88.2% of net sales in the second quarter of 2007 from 88.6% in the same quarter of 2006, due to decreases in restaurant labor and related costs and depreciation and amortization of restaurant property and equipment as a percentage of net sales which were partially offset by small increases in cost of sales and other operating expenses. Restaurant operating margins increased to 11.8% in the second quarter of 2007 from 11.4% in the second quarter of the previous year. Total restaurant operating expenses decreased to 86.7% of net sales in the first half of 2007 from 87.8% in the corresponding period of 2006, with all restaurant operating expense categories contributing to the decrease. Restaurant operating margins increased to 13.3% in the first half of 2007 from 12.2% in the first half of the previous year.

**Table of Contents**

Cost of sales, which includes the cost of food and beverages, increased to 32.5% of net sales in the second quarter of 2007 from 32.4% in the second quarter of 2006 due primarily to the effect of increases in the cost of beef, poultry, dairy products, salmon and other food commodities which more than offset the favorable effects of menu price increases and lower alcoholic beverage costs. Cost of sales decreased to 32.3% of net sales in the first half of 2007 from 32.5% in the corresponding period of 2006. This decrease was due to favorable comparative performance in the first quarter of 2007 when the effect of higher menu prices and lower alcoholic beverage costs more than offset higher prices paid for poultry, salmon and certain other food commodities.

Beef purchases represent the largest component of the Company's cost of sales and typically comprise approximately 28% to 30% of this expense category. The Company has entered into a beef purchase agreement for all of its beef needs through February 2008 under a pricing agreement which replaced the 12-month agreement which expired in March of 2007. Under the new agreement, the Company's beef costs for existing restaurants are expected to increase by approximately 8.7%, or \$1,100,000, in 2007 compared to 2006, with most of the increase occurring in the last three quarters of the year. In response to the higher beef input costs, the Company increased menu prices by approximately 1% in March of 2007.

Restaurant labor and related costs decreased to 32.1% of net sales in the second quarter of 2007 from 32.4% in the same period of 2006 and to 31.4% for the first half of 2007 from 31.8% for the first half of 2006. These decreases were due to more efficient labor management and the effects of higher menu prices which more than offset the effect of higher wage rates, including those resulting from increases in the required cash wages paid to tipped employees in three states beginning January 1, 2007. The Company estimates that the impact of the increases in the minimum cash rate paid to tipped employees in these states and one additional state with an increased rate effective July 1, 2007 will be approximately \$600,000 for 2007, before considering the effect of any labor efficiencies which may be achieved in individual restaurants. The increase in the federal minimum wage rate in 2007 is not expected to have a significant impact on the Company because the required federal minimum cash wage paid to tipped employees was not increased.

Amounts recorded for depreciation and amortization of restaurant property and equipment did not change significantly in the second quarter or first half of 2007 compared to the same periods of 2006, but decreased as percentages of net sales in the 2007 periods due to the increase in the net sales base.

Other operating expenses, which include restaurant level expenses such as china and supplies, laundry and linen costs, repairs and maintenance, utilities, credit card fees, rent, property taxes and insurance, increased to 19.9% of net sales in the second quarter of 2007 compared to 19.8% in the same period of 2006 while decreasing to 19.4% of net sales for the first half of 2007 from 19.6% for the first half of 2006. The increase for the second quarter was primarily due to higher credit card fees, utility costs and service costs which were partially offset by the favorable effects of higher sales and lower write-off costs associated with replacements and upgrades of the Company's restaurant assets. For the first half of 2007, the effect of sales increases and management's emphasis on operating expense control offset the effects of higher credit card fees, service costs and utility costs.

**Table of Contents**

**General and Administrative Expenses**

General and administrative expenses, which include all supervisory costs and expenses, management training and relocation costs, and other costs incurred above the restaurant level, increased nominally for the second quarter of 2007 compared to the second quarter of 2006 and decreased by \$69,000 for the first half of 2007 compared to the first half of 2006. During both of the 2007 periods, increases in certain expenses including accounting and auditing fees, corporate staff salary expense and incentive compensation accruals were largely offset by lower management training and relocation expenses and the absence in 2007 of marketing research costs which were incurred in 2006. General and administrative expenses decreased as a percentage of net sales in the 2007 periods compared to the 2006 periods primarily due to the higher sales base in 2007. General and administrative expenses are expected to increase in the last half of 2007 compared to the first half of the year due to several factors including expected increases in management training costs, stock-based compensation expenses associated with stock options granted in May of 2007, the cost of complying with requirements of the Sarbanes-Oxley Act, and travel and relocation expenses related to the planned opening of two new restaurants in the fourth quarter of the year.

**Other Income (Expense)**

Net interest expense decreased in the second quarter and first half of 2007 compared to the same periods of 2006 primarily due to higher investment income, which is netted against interest expense for income statement presentation, resulting primarily from higher balances of invested funds and to lower interest expense due primarily to reductions in outstanding debt and capitalization of interest in connection with new restaurant development.

**Income Taxes**

The Company's income tax provision for the first half of 2007 is based on an estimated effective tax rate of 27.0% for the fiscal year. The income tax provision for the first half of 2006 was based on an estimated effective tax rate of 24.2% for fiscal 2006, adjusted for a favorable discrete item of \$67,000 related to correction of a prior year's federal income tax return. These rates are lower than the statutory federal income tax rate of 34% due primarily to the effect of FICA tip tax credits, with the effect of those credits being partially offset by the effect of state income taxes.

**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 and improvements to its existing restaurants, and for meeting debt service requirements and operating lease obligations. Additionally, the Company paid cash dividends to all shareholders aggregating \$657,000 in January of 2007 and \$653,000 in January of 2006 which met the requirements to extend certain contractual standstill restrictions under an agreement with its largest shareholder, and may consider paying additional dividends in that regard in the future. The Company has met its needs and maintained liquidity in recent years primarily by cash flow from operations, use of a bank line of credit, and through proceeds received from a mortgage loan in 2002.

**Table of Contents**

The Company's net cash provided by operating activities totaled \$4,285,000 and \$4,287,000 for the first half of 2007 and 2006, respectively. Management expects that future cash flows from operating activities will vary primarily as a result of future operating results. Cash and cash equivalents on hand at July 1, 2007 were approximately \$14.7 million.

The Company currently plans to open two new restaurants in the fourth quarter of 2007 in Atlanta, Georgia and Palm Beach Gardens, Florida. Estimated cash expenditures for capital assets for the year are approximately \$13.6 million, including an estimated \$1.9 million in costs related to new restaurants scheduled to open during 2008 in Scottsdale, Arizona; Orlando, Florida; and Jacksonville, Florida. The Company has entered into lease agreements with respect to sites in Scottsdale and Orlando and expects to finalize the lease relative to a site in Jacksonville during the third quarter of 2007.

Management believes cash and cash equivalents on hand at July 1, 2007 combined with cash flow from operations will be adequate to meet the Company's capital needs for 2007. Management's longer-term growth plans are to open three restaurants in 2008 and to maintain an annual unit growth rate of approximately 10% after that time. While management does not believe its longer-term growth plans will be constrained due to lack of capital resources, capital requirements for this level of growth could exceed funds generated by the Company's operations. Management believes that, if needed, additional financing would be available for future growth through bank borrowing, 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 such financing, if needed, could be obtained or that it would be on terms satisfactory to the Company.

A mortgage loan obtained in 2002 represents the most significant portion of the Company's outstanding long-term debt. The loan, which was originally for \$25 million, had an outstanding balance of \$22.2 million at July 1, 2007. It 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. Provisions of the mortgage loan and related agreements require that a minimum fixed charge coverage ratio of 1.25 to 1 be maintained for the businesses operated at the properties included under the mortgage and that a funded debt to EBITDA (as defined in the loan agreement) ratio of 6 to 1 be maintained for the Company and its subsidiaries. The loan is pre-payable without penalty after October 29, 2007, with a yield maintenance penalty in effect prior to that time. The mortgage loan is secured by the real estate, equipment and other personal property of nine of the Company's restaurant locations with an aggregate book value of \$24.1 million at July 1, 2007. The real property at these locations is owned by JAX Real Estate, LLC, the borrower under the loan agreement, which leases them to a wholly-owned subsidiary of the Company as lessee. The Company has guaranteed the obligations of the lessee subsidiary to pay rents under the lease. JAX Real Estate, LLC, is an indirect wholly-owned subsidiary of the Company which is included in the Company's Condensed Consolidated Financial Statements. However, JAX Real Estate, LLC was established as a special purpose, bankruptcy remote entity and maintains its own legal existence, ownership of its assets and responsibility for its liabilities separate from the Company and its other affiliates.

**Table of Contents**

The Company maintains a secured bank line of credit agreement which provides up to \$10 million of credit availability for financing capital expenditures related to the development of new restaurants and for general operating purposes. The line of credit is secured by mortgages on the real estate of two of the Company's restaurant locations with an aggregate book value of \$7.3 million at July 1, 2007, and the Company has also agreed not to encumber, sell or transfer four other fee-owned properties. Provisions of the loan agreement require that the Company maintain a fixed charge coverage ratio of at least 1.5 to 1 and a maximum adjusted debt to EBITDAR (as defined in the loan agreement) ratio of 3.5 to 1. The loan agreement also provides that defaults which permit acceleration of debt under other loan agreements constitute a default under the bank agreement and restricts the Company's ability to incur additional debt outside of the agreement. Any amounts outstanding under the line of credit bear interest at the LIBOR rate as defined in the loan agreement plus a spread of 1.75% to 2.25%, depending on the Company's leverage ratio within a permitted range. The maturity date of this credit facility is July 1, 2009 unless it is converted to a term loan under the provisions of the agreement prior to May 1, 2009. There were no borrowings outstanding under the line as of July 1, 2007.

The Company was in compliance with the financial covenants of its debt agreements as of July 1, 2007. 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 the Company's debt agreements could become immediately due and payable, and there could be a material adverse effect on the Company's financial condition and operations.

**OFF BALANCE SHEET ARRANGEMENTS**

As of August 14, 2007, the Company had no financing transactions, arrangements or other business relationships with any unconsolidated affiliated entities. Additionally, the Company is not a party to any financing arrangements involving synthetic leases or trading activities involving commodity contracts. Contingent lease commitments are discussed in Note E, "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 December 31, 2006, there have been a number of agreements of the nature described above executed by the Company. None of them, individually or collectively, would be considered material to the Company's financial position or results of operations in the event of termination prior to the scheduled term.

The only contractual obligation entered into during the first half of 2007 considered significant to the Company was the execution of a beef pricing agreement in the ordinary course of business effective March 6, 2007. The agreement as originally executed was for all of the Company's beef needs for 12 months with the exception of one product which was covered only through mid-June of 2007. The agreement was amended during May, 2007 to include this product for the entire 12-month period. Under the terms of the agreement, if the Company's supplier has contracted to purchase specific products, the Company is obligated to purchase

**Table of Contents**

those products. The Company's supplier has indicated it is under contract to purchase approximately \$9.5 million of beef related to the Company's annual pricing agreement for the period July 1, 2007 through March 5, 2008. This amount compares to approximately \$2.2 million of purchase obligations for beef at December 31, 2006 (under the agreement which expired March 5, 2007).

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 1, 2007, is as follows:

Wendy's restaurants (31 leases)	\$ 3,500,000
Mrs. Winner's Chicken & Biscuits restaurants (26 leases)	1,200,000
Total contingent liability related to assigned leases	\$ 4,700,000

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

**RECENT ACCOUNTING PRONOUNCEMENTS**

In 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 provides guidance for using fair value to measure assets and liabilities. The standard expands required disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its 2008 Consolidated Financial Statements.

In February of 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ), which gives entities the option to measure eligible financial assets and financial liabilities at fair value on an instrument by instrument basis which are otherwise not permitted to be accounted for at fair value under other accounting standards. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability. Subsequent changes in fair value must be recorded in earnings. This statement is effective as of the beginning of a company's first fiscal year after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159 on its 2008 Consolidated Financial Statements.

In 2006, the FASB issued FASB Interpretation No. 48 Accounting for Uncertainties in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ), which clarifies the accounting for uncertainty in tax positions. FIN 48 requires that the Company recognize the impact of a tax position in the Company's financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 became effective

**Table of Contents**

as of the beginning of the Company's 2007 fiscal year and had no impact on the Company's Condensed Consolidated Financial Statements upon adoption. See Note C, "Income Taxes," included in the Notes to the Condensed Consolidated Financial Statements elsewhere herein for further discussion of the Company's adoption of FIN 48.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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 gift card revenue, property and equipment, leases, impairment of long-lived assets, income taxes, 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 the Company's Condensed Consolidated Financial Statements.

**Revenue Recognition for Gift Cards:** The Company records a liability for gift cards at the time they are sold by the Company's gift card subsidiary. Upon redemption, net sales are recorded and the liability is reduced by the amount of card values redeemed. Reductions in liabilities for gift cards which, although they do not expire, are considered to be only remotely likely to be redeemed and for which there is no legal obligation to remit balances under unclaimed property laws of the relevant jurisdictions, have been recorded as revenue by the Company and are included in net sales in the Company's Condensed Consolidated Statements of Income. Based on the Company's historical experience, management considers the probability of redemption of a gift card to be remote when it has been outstanding for 24 months.

**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.



**Table of Contents**

**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.

Certain of the Company's leases include rent holidays and/or escalations in payments over the base lease term, as well as the renewal periods. The effects of the rent 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 begins when the Company takes possession of or is given control of the leased property. Beginning in 2007, rent expense incurred during the construction period for a leased restaurant will be included in pre-opening expense. No construction period rent expense was incurred in 2006. 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 typically accrued when it is deemed probable that it will be payable. Allowances for tenant improvements received from lessors 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.

**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.

**Income Taxes:** The Company had gross deferred tax assets at December 31, 2006 of \$7,902,000, which amount included \$4,688,000 of tax credit carryforwards. U.S. 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.

**Table of Contents**

Management assesses 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 its forecasts of the Company's future taxable income adjusted by varying probability factors. Based on its analysis, management concluded that for 2006 a valuation allowance was needed for federal alternative minimum tax (AMT) credit carryforwards of \$1,657,000 and for tax assets related to certain state net operating loss carryforwards, the use of which involves considerable uncertainty. The valuation allowance provided for these items at December 31, 2006 was \$1,723,000. 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 Company's net deferred tax assets. Because of the uncertainties associated with projecting future operating results, there can be no assurance that management's estimates of future taxable income will be achieved and that there could not be an increase in the valuation allowance in the future. 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 the specific deferred tax assets noted above, management does not anticipate any further significant 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 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.

The above listing is not intended to be a comprehensive listing of all of the Company's accounting policies and estimates. 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 Condensed Consolidated Financial

**Table of Contents**

Statements and notes thereto included elsewhere in this filing and the Company's audited Consolidated Financial Statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 which contain accounting policies and other disclosures required by U.S. generally accepted accounting principles.

**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 maintain satisfactory guest counts and increase sales and operating margins in its restaurants; changes in business or economic conditions, including rising food costs and product shortages; the effect of higher minimum hourly wage requirements; the effect of higher gasoline prices and other economic factors on consumer demand; availability of qualified employees; increased cost of utilities, insurance and other restaurant operating expenses; potential fluctuations in quarterly operating results due to seasonality and other factors; the effect of hurricanes and other weather disturbances which are beyond the control of the Company; the number and timing of new restaurant openings and its ability to operate them profitably; competition within the casual dining industry, which is very intense; competition by the Company's new restaurants with its existing restaurants in the same vicinity; changes in consumer spending, consumer tastes, and consumer attitudes toward nutrition and health; expenses incurred if the Company is the subject of claims or litigation or increased governmental regulation; changes in accounting standards, which may affect the Company's reported results of operations; and expenses the Company may incur in order to comply with changing corporate governance and public disclosure requirements of the Securities and Exchange Commission and the American Stock Exchange. See Risk Factors included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 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 December 31, 2006.

**Item 4. Controls and Procedures**

- (a) *Evaluation of disclosure controls and procedures.* The Company's principal executive officer and principal financial officer have conducted an evaluation of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) and 15d-15(e)) as of the end of the period covered by this quarterly report. Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that, as of the end of the period covered by this quarterly report, the Company's disclosure controls and procedures

**Table of Contents**

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 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.

**Table of Contents****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 15, 2007.
- (b) Pursuant to Instruction 3 to Item 4, no response is required to this item.
- (c) At the Annual Meeting conducted May 15, 2007, the shareholders voted on the election of directors and on approval of the Amended and Restated 2004 Equity Incentive Plan. A summary of the votes is as follows:

**Directors:**

	<b>For</b>	<b>Withhold Authority</b>
Duncan	5,606,341	41,107
Fritts	5,625,680	21,768
Rector	5,599,900	47,548
Reed	4,777,325	870,123
Steakley	5,619,300	28,148
Stout	4,734,969	912,479

**Amended and Restated 2004 Equity Incentive Plan:**

<b>For</b>	<b>Against</b>	<b>Abstain</b>	<b>Broker Non-Vote</b>
3,739,629	249,454	48,394	1,609,972

(d) Not applicable.

**Item 6. Exhibits**

(a) Exhibits:

Exhibit 10.1	J. Alexander's Corporation Amended and Restated 2004 Equity Incentive Plan (Appendix A of the Registrant's Proxy Statement on Schedule 14-A for 2007 Annual Meeting of Shareholders, filed with the SEC on April 17, 2007, is incorporated herein by reference).
Exhibit 10.2	Form of 2007 Incentive Stock Option Agreement (Exhibit 10.02 of the Registrant's Form 8-K filed with the SEC on May 17, 2007, is incorporated herein by reference).
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.

**Table of Contents**

**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 15, 2007

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

Date: August 15, 2007

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

**Table of Contents**

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

**Exhibit No.**

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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.