

ALEXANDERS J CORP
Form 10-K
March 29, 2004

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934.
For the fiscal year ended December 28, 2003.

or

Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the transition period from _____ to _____.

Commission file number 1-8766

J. ALEXANDER S CORPORATION

(Exact name of Registrant as specified in its charter)

Tennessee

62-0854056

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification Number)

P.O. Box 24300
3401 West End Avenue
Nashville, Tennessee 37203

(Address of principal executive offices)(Zip Code)

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

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

Title of Class:

Name of each exchange on which registered:

Common stock, par value \$.05 per share.
Series A junior preferred stock purchase rights.

American Stock Exchange
American Stock Exchange

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

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

Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the last sales price on the American Stock Exchange of such stock as of June 29, 2003, the last business day of the Company's most recently completed second fiscal quarter, was \$16,268,890, assuming that (i) all shares held by executive officers of the Company are shares owned by affiliates, (ii) all shares beneficially held by members of the Company's Board of Directors are shares owned by affiliates, a status which each of the directors individually disclaims and (iii) all shares held by the Trustee of the J. Alexander's Corporation Employee Stock Ownership Plan are shares owned by an affiliate.

The number of shares of the Company's Common Stock, \$.05 par value, outstanding at March 25, 2004, was 6,439,418.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its 2004 Annual Meeting of Shareholders are incorporated by reference into Part III hereof.

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PART I

Item 1. Business

J. Alexander's Corporation (the Company) was organized in 1971 and, as of December 28, 2003, operated as a proprietary concept 27 J. Alexander's full-service, casual dining restaurants located in Alabama, Colorado, Florida, Georgia, Illinois, Kansas, Kentucky, Louisiana, Michigan, Ohio, Tennessee and Texas. J. Alexander's is a traditional restaurant with an American menu that features prime rib of beef; hardwood-grilled steaks, seafood and chicken; pasta; salads and soups; assorted sandwiches, appetizers and desserts; and a full-service bar.

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

RESTAURANT OPERATIONS

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

Each restaurant is generally open from 11:00 a.m. to 11:00 p.m. Monday through Thursday, 11:00 a.m. to 12:00 midnight on Friday and Saturday, and 11:00 a.m. to 10:00 p.m. on Sunday. Entrees available at lunch and dinner generally range in price from \$6.95 to \$25.00. The Company estimates that the average check per customer for fiscal 2003, excluding alcoholic beverages, was \$15.89. J. Alexander's net sales during fiscal 2003 were \$107.1 million, of which alcoholic beverage sales accounted for approximately 15.8%.

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

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

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

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

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

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

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

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

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

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

Management estimates that capital expenditures for additions and improvements to existing restaurants will total approximately \$2.5 million in 2004, net of the landlord's contribution of approximately \$500,000 for tenant improvements for a new restaurant opened in the fourth quarter of 2003. The Company currently does not plan to open any new restaurants in 2004. However, management is continually seeking locations for additional restaurants and would consider quickly taking advantage of any attractive opportunities which might arise. If satisfactory locations are found and successfully negotiated, any amounts expended in 2004 for new restaurant development will be in addition to the amounts discussed above. Excluding the cost of land acquisition, the Company estimates that the cash investment for site preparation and for constructing and equipping a J. Alexander's restaurant is currently approximately \$3.4 to \$4.1 million. The Company has generally preferred to own its sites because of the long-term value of real estate ownership. However, because of the Company's current development strategy, which focuses on markets with high population densities and household incomes, it has become increasingly difficult to find sites that are available for purchase and the Company has leased the sites for all but two of its restaurants opened since 1997. The cost of land purchased prior to 1998 averaged approximately \$1 million per location. However, the two sites most

recently purchased have averaged approximately \$1.5 million each. Management anticipates that the cost of future sites, when and if purchased, will range from \$1.25 to \$2 million, and could exceed this range for exceptional properties.

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The Company plans to open one to two new restaurants per year beginning in 2005. The timing of restaurant openings depends upon the selection and availability of suitable sites and other factors. The Company has no current plans to franchise J. Alexander's restaurants.

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

SERVICE MARK

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

COMPETITION

The restaurant industry is highly competitive. The Company believes that the principal competitive factors within the industry are site location, product quality, service and price; however, menu variety, attractiveness of facilities and customer recognition are also important factors. The Company's restaurants compete not only with numerous other casual dining restaurants with national or regional images, but also with other types of food service operations in the vicinity of each of the Company's restaurants. These include other restaurant chains or franchise operations with greater public recognition, substantially greater financial resources and higher total sales volume than the Company. The restaurant business is often affected by changes in consumer tastes, national, regional or local economic conditions, demographic trends, traffic patterns and the type, number and location of competing restaurants.

PERSONNEL

As of December 28, 2003, the Company employed approximately 2,600 persons. The Company believes that its employee relations are good. It is not a party to any collective bargaining agreements.

GOVERNMENT REGULATION

Each of the Company's restaurants is subject to various federal, state and local laws, regulations and administrative practices relating to the sale of food and alcoholic beverages, and sanitation, fire and building codes. Restaurant operating costs are also affected by other governmental actions that are beyond the Company's control, which may include increases in the minimum hourly wage requirements, workers' compensation insurance rates and unemployment and other taxes. Difficulties or failures in obtaining the required licenses or approvals could delay or prevent the opening of a new restaurant.

Alcoholic beverage control regulations require each of the Company's J. Alexander's restaurants to apply for and obtain from state authorities a license or permit to sell liquor on the premises and, in some states, to provide service for extended hours and on Sundays. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. The failure of any restaurant to obtain or retain any required liquor licenses would adversely affect the restaurant's operations. In certain states, the Company may be subject to dram-shop statutes, which generally provide a person injured by an intoxicated person the right to recover damages from the establishment which wrongfully served alcoholic beverages to the intoxicated person. Of the twelve states where J. Alexander's operates,

eleven have dram-shop statutes or recognize a cause of action for damages relating to sales of liquor to obviously intoxicated persons and/or minors. The Company carries liquor liability coverage with an aggregate limit of \$2 million and a limit per common cause of \$1 million as part of its comprehensive general liability insurance.

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

FORWARD-LOOKING STATEMENTS

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

RISK FACTORS

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

The Company Faces Challenges in Opening New Restaurants. The Company s continued growth depends on its ability to open new J. Alexander s restaurants and to operate them profitably, which will depend on a number of factors, including the selection and availability of suitable locations, the hiring and training of sufficiently skilled management and other personnel and other factors, some of which are beyond the control of the Company. In addition, it has been the Company s experience that new restaurants generate operating losses while they build sales levels to maturity. The Company currently operates twenty-seven J. Alexander s restaurants, of which five have been open for less than three 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 revenues. Additionally, possible future terrorist attacks on the United States and other military conflict could lead to a weakening of the economy. Adverse economic conditions and any related decrease in discretionary spending by the Company's customers could have an adverse effect on revenues and operating results.

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

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

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

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

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

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

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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, any changes requiring compensation expense to be recorded in the 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 varying interpretations of pronouncements have occurred and may occur in the future. Changes to the existing rules or differing interpretations with respect to the Company's current practices may adversely affect its reported financial results.

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

Executive Officers of the Company

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

| Name and Age | Background Information |
|------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| R. Gregory Lewis, 51 | Chief Financial Officer since July 1986; Vice President of Finance and Secretary since August 1984. |
| J. Michael Moore, 44 | Vice-President of Human Resources and Administration since November 1997; Director of Human Resources and Administration from August 1996 to November 1997; Director of Operations, J. Alexander's Restaurants, Inc. from March 1993 to April 1996. |
| Mark A. Parkey, 41 | Vice-President since May 1999; Controller of the Company since May 1997; Director of Finance from January 1993 to May 1997. |
| Lonnie J. Stout II, 57 | Chairman since July 1990; Director, President and Chief Executive Officer since May 1986. |

Available Information

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

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As of December 28, 2003, the Company had 27 J. Alexander's casual dining restaurants in operation. The following table gives the locations of, and describes the Company's interest in, the land and buildings used in connection with the above:

| | Site and Building Owned by the Company | Site Leased and Building Owned by the Company | Space Leased to the Company | Total |
|-----------------------------|---------------------------------------------------------------|------------------------------------------------------------------------------|------------------------------------------------|--------------|
| J. Alexander's Restaurants: | | | | |
| Alabama | 1 | 0 | 0 | 1 |
| Colorado | 1 | 0 | 0 | 1 |
| Florida | 2 | 2 | 0 | 4 |
| Georgia | 1 | 0 | 0 | 1 |
| Illinois | 2 | 0 | 1 | 3 |
| Kansas | 1 | 0 | 0 | 1 |
| Kentucky | 0 | 1 | 0 | 1 |
| Louisiana | 0 | 1 | 0 | 1 |
| Michigan | 1 | 1 | 1 | 3 |
| Ohio | 3 | 2 | 0 | 5 |
| Tennessee | 3 | 0 | 1 | 4 |
| Texas | 0 | 1 | 1 | 2 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total | 15 | 8 | 4 | 27 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

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

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

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

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

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

Financial Statements.

Item 3. Legal Proceedings

As of March 25, 2004, the Company was not a party to any pending legal proceedings considered material to its business.

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

No matters were submitted to a vote of security holders during the fourth quarter of 2003.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The common stock of J. Alexander's Corporation is listed on the American Stock Exchange under the symbol JAX. The approximate number of record holders of the Company's common stock at March 25, 2004, was 1,525. The following table summarizes the price range of the Company's common stock for each quarter of 2003 and 2002, as reported from price quotations from the American Stock Exchange:

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| | 2003 | | 2002 | |
|-------------------------|--------|--------|--------|--------|
| | Low | High | Low | High |
| 1 st Quarter | \$2.77 | \$3.80 | \$1.91 | \$3.70 |
| 2 nd Quarter | 2.91 | 4.34 | 2.80 | 3.69 |
| 3 rd Quarter | 4.09 | 5.67 | 2.50 | 3.55 |
| 4 th Quarter | 4.70 | 8.02 | 2.25 | 3.30 |

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

Item 6. Selected Financial Data

The following table sets forth selected financial data for each of the years in the five-year period ended December 28, 2003:

| | Years Ended | | | | |
|-------------------------------------------------------------------------------------------|------------------------|------------------------|------------------------|------------------------|----------------------|
| | December 28 2003 | December 29 2002 | December 30 2001 | December 31 2000 | January 2 2000 |
| (Dollars in thousands, except per share data) | | | | | |
| Operations | | | | | |
| Net sales | \$ 107,059 | 98,779 | 91,206 | 87,511 | 78,454 |
| Pre-opening expense | \$ 997 | 134 | 850 | 383 | 264 |
| Income (loss) before income taxes and cumulative effect of change in accounting principle | \$ 2,710 | 2,608 | 902 | 891 | (299) |
| Net income (loss) | \$ 3,832 ₁ | 2,835 ₂ | 271 | 481 | (332) |
| Depreciation and amortization | \$ 4,591 | 4,594 | 4,428 | 4,299 | 4,041 |
| Cash flow from operations | \$ 7,484 | 8,415 | 6,271 | 4,807 | 4,757 |
| Capital expenditures | \$ 8,651 | 7,180 | 8,815 | 4,814 | 4,884 |
| Financial Position (end of period) | | | | | |
| Cash and investments | \$ 1,635 | 10,525 | 1,035 | 1,057 | 933 |
| Property and equipment, net | \$ 73,613 | 69,521 | 66,946 | 62,590 | 62,142 |
| Total assets | \$ 82,537 | 85,033 | 71,303 | 66,370 | 65,635 |
| Long-term debt and obligations under capital leases | \$ 24,642 | 24,451 | 19,532 | 16,771 | 18,128 |
| Stockholders' equity | \$ 44,432 | 40,799 | 38,170 | 38,001 | 37,840 |
| Per Share Data | | | | | |
| Basic earnings (loss) per share | \$.59 | .42 | .04 | .07 | (.05) |
| Diluted earnings (loss) per share | \$.57 | .42 | .04 | .07 | (.05) |
| Dividends declared per share | \$ | | | | |
| Stockholders' equity | \$ 6.91 | 6.13 | 5.62 | 5.55 | 5.59 |
| Market price at year end | \$ 7.00 | 2.60 | 2.20 | 2.31 | 3.13 |
| J. Alexander's Restaurant Data | | | | | |
| Weighted average annual sales per restaurant | \$ 4,243 | 4,118 | 4,077 | 4,087 | 3,892 |

| | | | | | |
|------------------------|-----------|----|----|----|----|
| Units open at year end | 27 | 24 | 24 | 22 | 21 |
|------------------------|-----------|----|----|----|----|

1 Includes deferred income tax benefit of \$1,475 related to an adjustment of the Company's beginning of the year valuation allowance for deferred income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 Accounting for Income Taxes .

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

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

RESULTS OF OPERATIONS

Overview

J. Alexander's Corporation (the Company) owns and operates high volume, upscale casual dining restaurants which offer a contemporary American menu. At December 28, 2003, the Company owned and operated 27 J. Alexander's restaurants in 12 states.

J. Alexander's restaurants compete by placing a 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 building sales through establishing its reputation as an outstanding restaurant. The Company has generally been successful in achieving same store sales increases over time using this strategy.

Management was generally very pleased with the Company's same store sales increases and financial performance for 2003. Comparative same store sales trends strengthened during each quarter of 2003 and have continued favorable during early 2004. However, while restaurant operating margins (net sales minus total restaurant operating expenses divided by net sales) improved for 2003 compared to 2002, the Company's cost of sales as a percentage of sales increased by .8% for the year and increased sequentially by quarter during the year as a result of increases in food costs experienced by the Company. In addition, the Company's cost of beef increased significantly in March of 2004.

The Company did not increase menu prices significantly during 2002 or 2003. However, in order to offset at least a portion of the cost of sales increases the Company is experiencing, and which do not appear likely to abate in the near future, menu prices were increased by approximately 3% in March of 2004. Management will closely monitor the effect of the March price increase and may consider additional menu price increases during the year in order to maintain cost of sales at acceptable levels. Management believes that through maintaining excellent restaurant operations, the Company will be able to continue to increase guest counts in 2004. Further, sales trends in the casual dining segment of the restaurant industry have generally been favorable in recent months as trends in the national economy and consumer confidence levels have improved, and the outlook for continued improvement in sales remains generally favorable for 2004. Management believes that through the combination of continued same store sales gains and menu price increases, the Company will be able to offset the effect of higher cost of sales in 2004. However, there can be no assurance this will be the case or that guest counts will not be negatively affected by menu price increases or other factors.

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

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Because large capital investments are required for J. Alexander's restaurants and because a high degree of operating leverage (i.e., a significant portion of labor cost and other operating expenses are fixed or semi-fixed in nature) is employed, the sales required for an individual restaurant to break even are high compared to many other casual dining concepts and it is necessary for the Company to achieve relatively high sales volumes in its restaurants in order to achieve the desired financial returns. The Company's criteria for new restaurant development target locations with high population densities and high household incomes which management believes provide the best prospects for achieving outstanding financial returns on the Company's investments in new restaurants. Management intends to maintain a conservative new restaurant development rate of generally one to two new restaurants per year, although no restaurants are currently expected to open in 2004, to allow management to focus intently on improving sales and profits in its existing restaurants, while maintaining its pursuit of operational excellence.

In reviewing the results of the Company, it should be noted that the Company's income tax provision can vary significantly from year to year as a result of adjustments to the Company's valuation allowance for deferred taxes as discussed below. Also, because a valuation allowance is maintained for the Company's deferred tax assets, the effect of both permanent and timing differences in book income versus taxable income directly affect the Company's current tax provision and along with the application of the federal alternative minimum tax regulations to the Company's taxable income can cause volatility in the Company's effective tax rate, particularly at the Company's current pre-tax income levels.

Summary of Results

During fiscal 2003, the Company posted income before income taxes and the cumulative effect of a change in accounting principle of \$2,710,000, up slightly from \$2,608,000 reported during 2002. Operating income for 2003, while improving by \$858,000, or 21%, compared to 2002, was significantly affected by pre-opening costs associated with the opening of three new restaurants, as well as operating losses totaling approximately \$500,000 incurred in two of those restaurants which opened in the fourth quarter of the year. An increase in interest expense of \$812,000 offset most of the operating profit improvement achieved.

Net income increased to \$3,832,000 in 2003 from \$2,835,000 in 2002. The 2003 results included a favorable adjustment of \$1,475,000 to the income tax provision for the year as the result of a reduction of the Company's valuation allowance recorded against its deferred income tax assets. A similar adjustment in the amount of \$1,200,000 was included in the income tax provision for 2002.

The Company's income before income taxes and cumulative effect of change in accounting principle increased to \$2,608,000 for 2002 from \$902,000 in 2001. This increase was due primarily to an increase of \$1,759,000 in operating income during 2002 resulting from higher restaurant operating income and lower pre-opening expenses, with these items being partially offset by increased general and administrative expenses. Also, in accordance with the provisions of Statement of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets, the Company incurred an impairment charge of \$171,000 in 2002 related to goodwill recorded in connection with the Company's acquisition of its original casual dining restaurant in 1990. This charge was recorded as a cumulative effect of a change in accounting principle as of the beginning of the year.

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

| | 2003 | Fiscal Year 2002 | 2001 |
|------------------------------------------------------------------------------------|-------------------|-----------------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Net sales | 100.0% | 100.0% | 100.0% |
| Costs and expenses: | | | |
| Cost of sales | 32.4 | 31.6 | 32.4 |
| Restaurant labor and related costs | 32.7 | 33.2 | 33.5 |
| Depreciation and amortization of restaurant property and equipment | 4.1 | 4.4 | 4.7 |
| Other operating expenses | 18.2 | 18.8 | 18.2 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total restaurant operating expenses | 87.5 | 88.0 | 88.8 |
| | <u> </u> | <u> </u> | <u> </u> |
| General and administrative expenses | 7.1 | 7.8 | 7.9 |
| Pre-opening expense | .9 | .1 | .9 |
| | <u> </u> | <u> </u> | <u> </u> |
| Operating income | 4.5 | 4.0 | 2.5 |
| | <u> </u> | <u> </u> | <u> </u> |
| Other income (expense): | | | |
| Interest expense, net | (2.0) | (1.3) | (1.4) |
| Other, net | | (1) | (1) |
| | <u> </u> | <u> </u> | <u> </u> |
| Total other expense | (2.0) | (1.4) | (1.5) |
| | <u> </u> | <u> </u> | <u> </u> |
| Income before income taxes and cumulative effect of change in accounting principle | 2.5 | 2.6 | 1.0 |
| Income tax provision (benefit): | | | |
| Current | .3 | .8 | .7 |
| Deferred | (1.4) | (1.2) | |
| | <u> </u> | <u> </u> | <u> </u> |
| Total | (1.0) | (.4) | .7 |
| | <u> </u> | <u> </u> | <u> </u> |
| Income before cumulative effect of change in accounting principle | 3.6 | 3.0 | .3 |
| Cumulative effect of change in accounting principle | | (2) | |
| | <u> </u> | <u> </u> | <u> </u> |

| | | | |
|------------|-------------|------|-----|
| Net income | 3.6% | 2.9% | .3% |
|------------|-------------|------|-----|

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

| | | | |
|----------------------------------------------|-----------------|----------|----------|
| Restaurants open at end of year | 27 | 24 | 24 |
| Weighted average weekly sales per restaurant | \$81,600 | \$79,200 | \$78,400 |

Net Sales

Net sales increased by approximately \$8.3 million, or 8.4%, to \$107.1 million in fiscal year 2003 from \$98.8 million in 2002. The \$98.8 million of sales recorded in 2002 represented an increase of \$7.6 million, or 8.3%, over \$91.2 million of sales reported in 2001. The sales increase in 2003 was primarily due to three new restaurants which opened during the year and to sales increases within the Company's same store base. The 2002 increase was likewise due primarily to the opening of new restaurants, in September and December of 2001, and increases in same store sales. Same store sales increased by 3.9% to an average of \$82,200 per week in 2003 from \$79,100 per week in 2002 on a base of 24 restaurants. Same store sales averaged \$79,400 per week in 2002, an increase of 1.4% from 2001, on a base of 22 restaurants.

The Company computes weighted average weekly sales per restaurant by dividing total restaurant sales for the period by the total number of days all restaurants were open for the period to obtain a daily sales average, with the daily sales average then multiplied by seven to arrive at weekly average sales per restaurant. Days on which restaurants are closed for business for any reason other than the scheduled closure of all J. Alexander's restaurants on Thanksgiving day and Christmas day are excluded from this calculation. Weighted average weekly same store sales per restaurant are computed in the same manner as described above except that sales and sales days used in the calculation include only those for restaurants open for more than 18 months.

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Management believes that same store sales and guest count trends are important measures of comparative performance in the restaurant industry and for the Company. Included in the same store sales increases above were a guest count increase of approximately 3.2% in 2003 and a decrease of an estimated 2% in 2002. After experiencing declining guest counts in the first three quarters of 2002, the Company's guest counts flattened out in the fourth quarter of 2002 and increased on a comparative basis each quarter in 2003. Management believes the increases in 2003 were due to improved service levels in the Company's restaurants, limited menu price increases during 2002 and 2003, and significant sales improvements in certain of the Company's restaurants located in small and mid-sized markets. Increased wine sales, which management believes are due to additional emphasis placed on the Company's wine feature program, also contributed to the same store sales increases in 2002 and 2003. Management estimates the average check per guest, excluding alcoholic beverage sales, was \$15.89 for 2003, compared to \$15.83 in 2002 and \$15.38 in 2001. Menu prices for 2002 increased an estimated 1.5% compared to 2001 primarily due to modest price increases implemented by the Company in the last half of 2001 on selected menu items in order to increase sales and improve profitability.

Management believes its long-term emphasis on providing professional service combined with effective menu management will continue to build sales and increase customer traffic over time. Average weekly same store sales increased by 7.7% for the first eight weeks of 2004 compared to the same period of 2003.

Restaurant Costs and Expenses

Total restaurant operating expenses, as a percentage of sales, declined to 87.5% in 2003 from 88.0% and 88.8% in 2001. Restaurant operating margins (net sales minus total restaurant operating expenses, divided by net sales) improved to 12.5% in 2003 from 12.0% in 2002, and 11.2% in 2001.

The most significant factor affecting the changes in restaurant operating expenses as a percentage of sales in both 2003 and 2002 was cost of sales. Cost of sales, as a percentage of sales, increased by .8% in 2003 compared to 2002 due primarily to increases in input costs in a number of categories including poultry, produce and dairy. The Company's cost of salmon also increased as did the cost of shortening and cooking oil. Beef costs increased due to the effect of upgrading selected beef products to higher quality and more expensive Certified Angus Beef, and the Company also experienced a shift toward more sales of beef products, which generally have a higher cost of sales.

Beef purchases represent the largest component of the Company's cost of sales and comprise approximately 28% of this category. The Company typically enters into an annual pricing agreement covering most of its beef purchases. The twelve month pricing agreement effective in March 2002 included significant price decreases from the previous annual agreement. The Company was also able to renew the agreement for an additional twelve month period beginning in March 2003 at the same prices. Management believes this resulted in very favorable beef prices for the Company for most of 2003. Due to higher prices in the beef market during 2003 and early 2004, prices under the Company's most recent beef pricing agreement which was effective in March of 2004 increased by an estimated 13% to 14% and are expected to increase the Company's cost of sales by approximately \$1.5 million during the twelve month term of the new agreement. In response to the higher beef input costs as well as continuing upward pressure on the cost of a number of other food items, the Company increased menu prices by approximately 3% in March of 2004. Even with higher menu prices, management estimates that the Company's cost of sales, as a percentage of sales, will increase in 2004 compared to 2003.

The decrease in cost of sales in 2002 was due to the impact of higher menu prices and favorable costs associated with beef, pork and poultry, which more than offset increased produce costs incurred during the year.

Restaurant labor and related costs decreased as a percentage of sales in both 2003 and 2002. These decreases were due largely to the effect of higher tip share contributions by restaurant servers to each restaurant's tip pool, which

resulted in reductions in the hourly wage rates paid by the Company to the employees receiving larger distributions under the tip pool program. In 2003 the favorable effects of the higher tip share contributions combined with labor efficiencies gained at higher sales volumes more than offset the effects of higher labor costs in new restaurants and increases in workers' compensation insurance premiums. In 2002 the favorable effects of the tip share contributions more than offset the impact of increased wages associated with kitchen staff, higher bonus payouts to restaurant management, and increases in workers' compensation insurance premiums and payroll tax expense.

Depreciation and amortization of restaurant property and equipment decreased to 4.1% of sales in 2003 from 4.4% in 2002 and 4.7% in 2001. These decreases were due primarily to assets which became fully depreciated.

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Other operating expenses decreased to 18.2% of sales in 2003 from 18.8% in 2002, following an increase in 2002 from 18.2% in 2001. The decrease in 2003 was primarily related to operating efficiencies gained at higher sales volumes and management's emphasis on controlling costs in this area. The increase in 2002 was primarily related to increases in premiums for property and casualty insurance, additional rent expense, and higher repair and maintenance expenditures.

General and Administrative Expenses

General and administrative expenses, which include all supervisory costs and expenses, management training and relocation costs, and all other costs above the restaurant level, totaled \$7,568,000 in 2003, \$7,720,000 in 2002 and \$7,165,000 in 2001. The most significant factor contributing to the decrease in general and administrative expenses in 2003 was a decrease of \$240,000 in the accrual for bonuses paid to the corporate staff for the year. The lower bonus accrual combined with a reduction in salary expenses more than offset increases in group health insurance costs and higher travel expenses resulting from the opening of three new restaurants. General and administrative expenses as a percentage of sales decreased for 2003 compared to 2002 due to the reduction in general and administrative expenses combined with growth in sales.

The increase in general and administrative expenses for 2002 was primarily due to the inclusion of an accrual for bonuses earned by the corporate staff for the year and increases in other employee benefit obligations. These increases more than offset decreases in travel costs and employee relocation and procurement expenses. No bonuses for the corporate staff were accrued or paid for 2001. As a percentage of sales, general and administrative expenses decreased slightly in 2002 from 2001 due to growth of the Company's sales base.

Pre-Opening Expense

Pre-opening costs, which are expensed as incurred, totaled \$997,000 in 2003, representing a significant increase over the \$134,000 incurred in 2002. This increase was due to the opening of three new restaurants in 2003, while no new restaurants were opened in 2002. Pre-opening expenses for 2002 included primarily management training expenses incurred in connection with a new restaurant opened in the first quarter of 2003. Because two restaurants were opened in 2001, pre-opening expenses were also higher in that year than in 2002.

Interest Expense

Net interest expense increased by \$812,000 in 2003 compared to 2002. This increase was due to increased borrowings and to higher interest rates associated with \$25,000,000 of mortgage financing completed by the Company during the fourth quarter of 2002, which has a fixed effective annual interest rate of 8.6%.

Net interest expense did not change significantly in 2002 compared to 2001, as the effect of lower interest rates on the Company's line of credit balances outstanding for the first ten months of the year offset the effects of higher outstanding credit line balances and additional interest expense on the mortgage financing completed in 2002.

Income Taxes

Under the provisions of SFAS No. 109 "Accounting for Income Taxes", the Company had gross deferred tax assets of \$6,212,000 and \$6,142,000 and gross deferred tax liabilities of \$196,000 and \$11,000 at December 28, 2003 and December 29, 2002, respectively. The deferred tax assets at December 28, 2003 relate primarily to \$4,738,000 of tax credit carryforwards available to reduce future federal income taxes.

Realization of the Company's deferred tax assets is dependent principally on future earnings of the Company and the recognition of these assets depends on the Company's assessment of the likelihood of taxable income in future periods in amounts sufficient to realize the assets. The deferred tax assets have been reduced through use of a valuation allowance to the extent future income is not considered more likely than not to be generated in such amounts. Based on management's assessment of the likelihood of the future realization of the Company's deferred tax assets, the beginning of the year valuation allowance was reduced by \$1,475,000 and \$1,200,000 in the fourth quarters of 2003 and 2002, respectively, with corresponding credits to the income tax provisions for those years. These credits, while reducing income tax expense, are not a current source of cash for the Company. See additional discussion under Critical Accounting Policies - Income Taxes.

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The Company's annual income tax provisions also include estimated federal alternative minimum tax (AMT) and state income taxes payable, with the federal AMT computed by applying the AMT rate to the Company's pre-tax accounting income after adding back certain tax preference items, as well as certain permanent differences and timing differences in book and tax income. Because the Company maintains a partial valuation allowance on its deferred tax assets, no direct benefit is recognized in the income tax provisions with respect to the AMT credit carryforwards or other tax assets generated. During 2003, the Company reversed previously accrued federal income taxes payable of \$182,000, resulting in a reduction in the current federal provision.

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 required debt service obligations. The Company has met its needs and maintained liquidity for the past three years primarily by use of cash flow from operations, use of bank lines of credit and, beginning in October 2002, through proceeds from a mortgage loan.

The Company's capital expenditures can vary significantly from year to year depending on the number, timing and form of ownership of new restaurants. Cash expenditures for capital assets totaled \$9,418,000, \$6,670,000 and \$8,306,000 for 2003, 2002 and 2001, respectively, and were primarily for the development of new J. Alexander's restaurants. Cash provided by operating activities represented 79% and 76% of capital expenditures for 2003 and 2001, respectively, and exceeded capital expenditures in 2002. The remaining capital expenditures for 2003 and 2001 were funded primarily by use of the Company's then existing lines of credit and, in 2003, proceeds from long term mortgage financing completed in 2002. Lines of credit were also used to meet other obligations, including annual sinking fund requirements for a convertible debenture issue which was retired in 2003, and working capital needs during 2001 and a portion of 2002. Outstanding borrowings under the line of credit which was in effect during 2001 and 2002 increased from \$9,265,000 at the beginning of 2001 to \$15,470,000 when it was paid off in October 2002.

In October 2002, the Company obtained \$25,000,000 of long-term financing through completion of a mortgage loan transaction. 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. Net proceeds from the mortgage loan, after deducting fees and expenses associated with the transaction, were approximately \$24,275,000. A portion of these funds were used to pay off the outstanding balance of \$15,470,000 on the Company's bank line of credit as of October 29, 2002, terminating that facility. Remaining funds were invested in short term money market funds and used along with cash flow from operations primarily for retiring the Company's \$6,250,000 of convertible subordinated debentures which matured in 2003, to fund capital costs associated with new and existing restaurants, and for repurchases of the Company's common stock.

Provisions of the mortgage loan and related agreements require that a minimum fixed charge coverage ratio be maintained for the restaurants securing the loan and that the Company's leverage ratio not exceed a specified level. 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 \$25,418,000 at December 28, 2003. 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 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.

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On May 12, 2003, the Company entered into a secured bank line of credit agreement which will provide 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 is currently approximately \$4.6 million and is based on a percentage of the appraised value of the collateral securing the line. Provisions of the line of credit agreement require that a minimum fixed charge coverage ratio be maintained and that the Company's leverage ratio 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 \$8,157,000 at December 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 Company's 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. Borrowings outstanding under this credit line were \$486,000 at December 28, 2003. There were no borrowings under the line as of March 25, 2004.

Management believes that cash flow from operations combined with the credit available under its bank line of credit will be adequate to meet its financing needs for 2004 and that its conservative long-term growth plan of one to two restaurants per year will not be constrained due to lack of capital resources. However, to supplement these 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 sale and leaseback of some or all of the Company's unencumbered restaurant properties. There can be no assurance, however, that, if needed, such financing could be obtained or that it would be on terms satisfactory to the Company.

The Company currently does not plan to open any new restaurants in 2004. However, management is continually seeking locations for new J. Alexander's restaurants and would consider quickly taking advantage of any attractive opportunities which might arise. Management estimates that capital expenditures for existing restaurants will be approximately \$2.5 million for 2004, net of the landlord's contribution of approximately \$500,000 for tenant improvements for a new restaurant opened in the fourth quarter of 2003. Capital expenditures in 2004 for the development of new restaurants are dependent upon the timing and success of management's efforts to locate acceptable sites and would be in addition to the amounts above.

The Company has periodically made purchases of its common stock under a repurchase program authorized by the Company's Board of Directors. The total authorized purchases under this program are \$2,000,000. From June 2001 through May 14, 2003, the Company repurchased approximately 535,000 shares at a cost of approximately \$1,555,000, an average cost of \$2.91 per share. The Company generally does not repurchase shares following the end of a fiscal quarter until after results for the quarter have been publicly announced.

While a working capital deficit of \$5,758,000 was present as of December 28, 2003, the Company does not believe this deficit impairs the overall financial condition of the Company because certain of the Company's expenses, particularly depreciation and amortization, do not require current outlays of cash. Also, requirements for funding accounts receivable and inventories are relatively insignificant, so that virtually all cash generated by operations is available to meet current obligations. Further, the Company's current obligations for repayment of long-term debt are now significantly less than in previous years due to the replacement of previous debt agreements with 20 year fixed rate financing.

As of March 25, 2004, 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. Operating lease commitments for leased restaurants and office space are disclosed in Note E, Leases and Note J, Commitments and Contingencies, to the Consolidated Financial Statements.

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The following table sets forth significant contractual obligations of the Company at December 28, 2003:

| Contractual Obligations | Payments Due by Period | | | | |
|--------------------------------------|------------------------|---------------------|----------------------|--------------------|----------------------|
| | Total | Less than 1 Year | 1-3 Years | 3-5 Years | More than 5 Years |
| Long-term debt (1) | \$ 48,686,000 | \$2,548,000 | \$ 5,582,000 | \$5,096,000 | \$35,460,000 |
| Capitalized lease obligations (1) | 612,000 | 124,000 | 97,000 | 73,000 | 318,000 |
| Operating leases (2) | 52,641,000 | 2,360,000 | 4,313,000 | 4,218,000 | 41,750,000 |
| Purchase obligations (3) | 622,000 | 538,000 | 71,000 | 13,000 | |
| Other long-term obligations | 1,028,000 | | | | 1,028,000 |
| Total | \$ 103,589,000 | \$5,570,000 | \$ 10,063,000 | \$9,400,000 | \$78,556,000 |

(1) Long-term debt and capitalized lease obligations include the interest expense component.

(2) Includes renewal option periods.

(3) In determining purchase obligations for this table, the Company used its interpretation of the definition set forth in the related rule which states, a purchase obligation is defined as an agreement to purchase goods or services that is enforceable and legally binding on the registrant and that specifies all significant terms, including: fixed minimum quantities to be purchased; fixed, minimum or variable/price provisions, and the approximate timing of the transaction. In applying this definition, the Company has only included purchase obligations to the extent the failure to perform would result in formal recourse to J. Alexander's Corporation.

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 December 28, 2003, is as follows:

| | |
|----------------------------------------------------------|--------------------|
| Wendy's restaurants (39 leases) | \$5,300,000 |
| Mrs. Winner's Chicken & Biscuits restaurants (29 leases) | 3,300,000 |
| Total contingent liability related to assigned leases | <u>\$8,600,000</u> |

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 Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States, 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, 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 Consolidated Financial Statements.

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Income Taxes: The Company had \$6,212,000 of gross deferred tax assets at December 28, 2003, consisting principally of \$4,738,000 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 the Company operates with a high degree of financial and operating leverage, with a significant portion of its costs being 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 2002, the Company completed its third consecutive profitable year, with pre-tax income increasing significantly over the previous year. In addition the Company had recorded significant increases in operating income in four of the previous five years and had reached a size and experience level which management believed made it less likely that an unsuccessful new restaurant would have a significant effect on consolidated operating results. Because of these factors, management further assessed the likelihood of realization of its deferred tax assets, using as its principal basis its forecast of future taxable income adjusted by applying varying probability factors to the achievement of this forecast. As the result of this assessment, the beginning of the year valuation allowance was reduced by \$1,200,000 in the fourth quarter of 2002, with a corresponding credit to deferred income tax expense. Management completed a similar assessment in 2003 and concluded that the valuation allowance should be reduced by an additional \$1,475,000. As a result, the beginning of the year valuation allowance was reduced by that amount in the fourth quarter of 2003, with a corresponding credit to deferred income tax expense.

Failure to achieve taxable income in the future, as so assessed, 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 assessment of 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 profitability and 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 net deferred tax assets.

The Company will continue to evaluate the likelihood of realization of its net 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 net realizable value of the net 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.

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 income 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.

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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.

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 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. See the Company's audited Consolidated Financial Statements and notes thereto included in this Annual Report on Form 10-K which contain accounting policies and other disclosures required by generally accepted accounting principles.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 supersedes Emerging Issues Task Force (EITF) No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)*. SFAS No. 146 eliminates the provisions of EITF No. 94-3 that required a liability to be recognized for certain exit or disposal activities at the date an entity committed to an exit plan. SFAS No. 146 requires a liability for costs associated with an exit or disposal activity to be recognized when the liability is incurred. SFAS No. 146 became effective for exit or disposal activities initiated after December 31, 2002. The adoption of this statement had no impact on the Company's results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure*. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, *Interim Financial Reporting* to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB Opinion No. 25. As allowed by SFAS No. 123, the Company has elected to continue to utilize the accounting method prescribed by APB Opinion No. 25 and has adopted the disclosure requirements of SFAS No. 123 and SFAS No. 148.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities*, an Interpretation of ARB No. 51, which addresses consolidation by business enterprises of variable interest entities (VIEs) either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. In December 2003, the FASB issued modifications to FIN 46 (Revised Interpretations) resulting in multiple effective dates based on the nature as well as the creation date of the VIE. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretations. However, the Revised Interpretations must be applied no later

than the first quarter of 2004. VIEs created after January 1, 2004 must be accounted for under the Revised Interpretations. Non-Special Purpose Entities created prior to February 1, 2003, should be accounted for under the revised interpretation s provisions no later than the first quarter of fiscal 2004. The Company has adopted FIN 46, which did not have an impact on the Company s Consolidated Financial Statements upon adoption, and the Company does not expect the Revised Interpretations to have an impact on the Company s Consolidated Financial Statements.

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In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity, and imposes certain additional disclosure requirements. The provisions of SFAS No. 150 are generally effective for all financial instruments entered into or modified after May 31, 2003, and otherwise became effective at the beginning of the first interim period beginning after June 15, 2003. The Company has adopted SFAS No. 150 and it had no impact on the Company's Consolidated Financial Statements.

IMPACT OF INFLATION AND OTHER FACTORS

Virtually all of the Company's costs and expenses are subject to normal inflationary pressures and the Company continually seeks ways to cope with their impact. By owning a number of its properties, the Company avoids certain increases in occupancy costs. New and replacement assets will likely be acquired at higher costs, but this will take place over many years. In general, the Company tries to offset increased costs and expenses through additional improvements in operating efficiencies and by increasing menu prices over time, as permitted by competition and market conditions.

SEASONALITY AND QUARTERLY RESULTS

The Company's revenues and net income have historically been subject to seasonal fluctuations. Revenues and operating income typically reach their highest levels during the fourth quarter of the fiscal year due to holiday business and the first quarter of the fiscal year due to the redemption of gift cards sold during the holiday season. In addition, certain of the Company's restaurants, particularly those located in southern Florida, typically experience an increase in customer traffic during the period between Thanksgiving and Easter due to an increase in population in these markets during that portion of the year. Quarterly results have been and are expected to continue to be significantly impacted by the timing of new restaurant openings and their associated pre-opening costs. As a result of these and other factors, the Company's financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year. A summary of the Company's quarterly results for 2003 and 2002 appears in this Report immediately following the Notes to the Consolidated Financial Statements.

Item 7a. Qualitative and Quantitative Disclosures About Market Risk

Disclosure About Interest Rate Risk. The Company is subject to market risk from exposure to changes in interest rates based on its financing and cash management activities. While substantially all of the Company's debt outstanding as of December 28, 2003 was at fixed rates, the Company has historically utilized a mix of both fixed-rate and variable-rate debt to manage its exposures to changes in interest rates. (See Notes D and E to the Consolidated Financial Statements appearing elsewhere herein.) The Company does not expect changes in market interest rates to have a material affect on income or cash flows in fiscal 2004, although there can be no assurances that interest rates will not significantly change.

Commodity Price Risk. Many of the food products purchased by the Company are affected by commodity pricing and are, therefore, subject to price volatility caused by weather, production problems, delivery difficulties and other factors which are outside the control of the Company. Essential supplies and raw materials are available from several sources and the Company is not dependent upon any single source of supplies or raw materials. The Company's ability to maintain consistent quality throughout its restaurant system depends in part upon its ability to acquire food products and related items from reliable sources. When the supply of certain products is uncertain or prices are expected to rise significantly, the Company may enter into purchase contracts or purchase bulk quantities for future use. The Company routinely has purchase commitments for terms of one year or less for food and supplies with a variety of vendors,

some of which are limited to a pricing schedule for the period covered by the agreements. The Company has established long-term relationships with key beef, seafood and produce vendors and brokers. Adequate alternative sources of supply are believed to exist for substantially all products. While the supply and availability of certain products can be volatile, the Company believes that it has the ability to identify and access alternative products as well as the ability to adjust menu prices if needed. Significant items that could be subject to price fluctuations are beef, seafood, produce, pork and dairy products among others. The Company believes that any changes in commodity pricing which cannot be adjusted for by changes in menu pricing or other product delivery strategies would not be material.

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Item 8. Financial Statements and Supplementary Data

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The following consolidated financial statement schedule of J. Alexander's Corporation and subsidiaries is included in Item 15(d):

Schedule II-Valuation and qualifying accounts

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

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Report of Independent Auditors

The Board of Directors and Stockholders

J. Alexander's Corporation

We have audited the accompanying consolidated balance sheets of J. Alexander's Corporation and subsidiaries as of December 28, 2003 and December 29, 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three fiscal years in the period ended December 28, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of J. Alexander's Corporation and subsidiaries at December 28, 2003 and December 29, 2002, and the consolidated results of their operations and their cash flows for each of the three fiscal years in the period ended December 28, 2003 in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As described in Note L to the consolidated financial statements, the Company has changed its method of accounting for goodwill upon adoption of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets".

/s/Ernst & Young LLP

Nashville, Tennessee

February 20, 2004

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J. Alexander's Corporation and Subsidiaries
Consolidated Statements of Income

| | Years Ended | | |
|------------------------------------------------------------------------------------|-----------------------|---------------------|---------------------|
| | December 28 2003 | December 29 2002 | December 30 2001 |
| Net sales | \$ 107,059,000 | \$98,779,000 | \$91,206,000 |
| Costs and expenses: | | | |
| Cost of sales | 34,732,000 | 31,245,000 | 29,575,000 |
| Restaurant labor and related costs | 35,031,000 | 32,806,000 | 30,533,000 |
| Depreciation and amortization of restaurant property and equipment | 4,337,000 | 4,345,000 | 4,242,000 |
| Other operating expenses | 19,538,000 | 18,531,000 | 16,602,000 |
| | 93,638,000 | 86,927,000 | 80,952,000 |
| Total restaurant operating expenses | | | |
| General and administrative expenses | 7,568,000 | 7,720,000 | 7,165,000 |
| Pre-opening expense | 997,000 | 134,000 | 850,000 |
| | 4,856,000 | 3,998,000 | 2,239,000 |
| Operating income | | | |
| Other income (expense): | | | |
| Interest expense, net | (2,108,000) | (1,296,000) | (1,303,000) |
| Gain on purchase of debentures | | | 17,000 |
| Other, net | (38,000) | (94,000) | (51,000) |
| | (2,146,000) | (1,390,000) | (1,337,000) |
| Total other expense | | | |
| Income before income taxes and cumulative effect of change in accounting principle | 2,710,000 | 2,608,000 | 902,000 |
| Income tax provision (benefit) | (1,122,000) | (398,000) | 631,000 |
| | 3,832,000 | 3,006,000 | 271,000 |
| Income before cumulative effect of change in accounting principle | | | |
| Cumulative effect of change in accounting principle | | (171,000) | |
| | \$ 3,832,000 | \$ 2,835,000 | \$ 271,000 |
| Net income | | | |

| | | | |
|-------------------------------------------------------------------|-------------------|-------------------|-------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Basic earnings per share: | | | |
| Income before cumulative effect of change in accounting principle | \$.59 | \$.44 | \$.04 |
| Cumulative effect of change in accounting principle | | (.02) | |
| | <u> </u> | <u> </u> | <u> </u> |
| Basic earnings per share | <u>\$.59</u> | <u>\$.42</u> | <u>\$.04</u> |
| | | | |
| Diluted earnings per share: | | | |
| Income before cumulative effect of change in accounting principle | \$.57 | \$.44 | \$.04 |
| Cumulative effect of change in accounting principle | | (.02) | |
| | <u> </u> | <u> </u> | <u> </u> |
| Diluted earnings per share | <u>\$.57</u> | <u>\$.42</u> | <u>\$.04</u> |

See Notes to Consolidated Financial Statements.

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J. Alexander's Corporation and Subsidiaries
Consolidated Balance Sheets

| | December 28 2003 | December 29 2002 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|
| | | |
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 1,635,000 | \$10,525,000 |
| Accounts and notes receivable, including current portion of direct financing leases, net of allowances for possible losses | 589,000 | 97,000 |
| Inventories at lower of cost (first-in, first-out method) or market | 1,068,000 | 790,000 |
| Deferred income taxes | 791,000 | 488,000 |
| Prepaid expenses and other current assets | 1,050,000 | 1,000,000 |
| | | |
| Total Current Assets | 5,133,000 | 12,900,000 |
| Other Assets | 1,009,000 | 951,000 |
| Property and Equipment , at cost, less allowances for depreciation and amortization | 73,613,000 | 69,521,000 |
| Deferred Income Taxes | 1,884,000 | 712,000 |
| Deferred Charges , less accumulated amortization of \$482,000 and \$1,284,000 at December 28, 2003, and December 29, 2002, respectively | 898,000 | 949,000 |
| | | |
| | \$82,537,000 | \$85,033,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Accounts payable | \$ 3,194,000 | \$ 3,035,000 |
| Accrued expenses and other current liabilities | 4,177,000 | 4,982,000 |
| Unearned revenue | 2,871,000 | 2,692,000 |
| Current portion of long-term debt and obligations under capital leases | 649,000 | 6,786,000 |
| | | |
| Total Current Liabilities | 10,891,000 | 17,495,000 |
| Long-Term Debt and Obligations Under Capital Leases , net of portion classified as current | 24,642,000 | 24,451,000 |
| Salary Continuation Plan Liabilities | 1,028,000 | 1,000,000 |
| Deferred Rent Obligations and Other Deferred Credits | 1,544,000 | 1,288,000 |
| Stockholders' Equity | | |
| Common Stock, par value \$.05 per share: Authorized 10,000,000 shares; issued and outstanding 6,432,718 and 6,660,535 shares at December 28, 2003, and December 29, 2002, respectively | 322,000 | 333,000 |
| Preferred Stock, no par value: Authorized 1,000,000 shares; none issued | | |
| Additional paid-in capital | 33,645,000 | 34,357,000 |
| Retained earnings | 11,359,000 | 7,527,000 |

| | | |
|-----------------------------------------------|---------------------|--------------|
| | _____ | _____ |
| | 45,326,000 | 42,217,000 |
| Note receivable Employee Stock Ownership Plan | (370,000) | (688,000) |
| Employee notes receivable 1999 Loan Program | (524,000) | (730,000) |
| | _____ | _____ |
| Total Stockholders Equity | 44,432,000 | 40,799,000 |
| | _____ | _____ |
| Commitments and Contingencies | | |
| | \$82,537,000 | \$85,033,000 |
| | _____ | _____ |

See Notes to Consolidated Financial Statements.

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J. Alexander's Corporation and Subsidiaries
Consolidated Statements of Cash Flows

| | Years Ended | | |
|-----------------------------------------------------------------------------------|---------------------|---------------------|---------------------|
| | December 28 2003 | December 29 2002 | December 30 2001 |
| Cash Flows from Operating Activities: | | | |
| Net income | \$ 3,832,000 | \$ 2,835,000 | \$ 271,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization of property and equipment | 4,444,000 | 4,467,000 | 4,376,000 |
| Goodwill impairment charge | | 171,000 | |
| Amortization of deferred charges | 147,000 | 127,000 | 52,000 |
| Deferred income tax benefit | (1,475,000) | (1,200,000) | |
| Other, net | 122,000 | 141,000 | 81,000 |
| Changes in assets and liabilities: | | | |
| Decrease (increase) in accounts and notes receivable | 6,000 | 68,000 | (71,000) |
| Decrease (increase) in inventories | (278,000) | 146,000 | (195,000) |
| Increase in prepaid expenses and other current assets | (50,000) | (165,000) | (243,000) |
| Increase in deferred charges | (44,000) | (47,000) | (85,000) |
| Increase in accounts payable | 588,000 | 757,000 | 220,000 |
| Increase (decrease) in accrued expenses and other current liabilities | (589,000) | 436,000 | 998,000 |
| Increase in unearned revenue | 179,000 | 277,000 | 454,000 |
| Increase in other long-term obligations | 284,000 | 402,000 | 413,000 |
| Decrease in note receivable Employee Stock Ownership Plan | 318,000 | | |
| | 7,484,000 | 8,415,000 | 6,271,000 |
| Cash Flows from Investing Activities: | | | |
| Purchase of property and equipment | (9,418,000) | (6,670,000) | (8,306,000) |
| Other, net | (66,000) | (43,000) | (54,000) |
| | (9,484,000) | (6,713,000) | (8,360,000) |
| Cash Flows from Financing Activities: | | | |
| Proceeds under bank line of credit agreement | 8,426,000 | 31,791,000 | 41,003,000 |
| Payments under bank line of credit agreement | (7,940,000) | (46,062,000) | (35,997,000) |
| Proceeds from mortgage loan | | 25,000,000 | |

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| | | | |
|--------------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| Payment of financing transaction costs | (52,000) | (725,000) | |
| Payments on long-term debt and obligations under capital leases | (6,807,000) | (1,770,000) | (1,492,000) |
| Common stock repurchased | (864,000) | (381,000) | (136,000) |
| Reduction of employee receivables - 1999 Loan Program | 206,000 | 8,000 | 31,000 |
| Sale of stock and exercise of stock options | 148,000 | 167,000 | 3,000 |
| Decrease in bank overdraft | | (240,000) | (1,345,000) |
| Other, net | (7,000) | | |
| | <u> </u> | <u> </u> | <u> </u> |
| Net cash (used) provided by financing activities | (6,890,000) | 7,788,000 | 2,067,000 |
| | <u> </u> | <u> </u> | <u> </u> |
| Increase (Decrease) in Cash and Cash Equivalents | (8,890,000) | 9,490,000 | (22,000) |
| Cash and cash equivalents at beginning of year | 10,525,000 | 1,035,000 | 1,057,000 |
| | <u> </u> | <u> </u> | <u> </u> |
| Cash and Cash Equivalents at End of Year | \$ 1,635,000 | \$ 10,525,000 | \$ 1,035,000 |
| | <u> </u> | <u> </u> | <u> </u> |

See Notes to Consolidated Financial Statements.

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J. Alexander's Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity

| | Outstanding Shares | Common Stock | Additional Paid-In Capital | Retained Earnings | Note Receivable- Employee Stock Ownership Plan | Employee Notes Receivable- 1999 Loan Program | Total Stockholders Equity |
|-------------------------------------------------------------------|-------------------------------|-------------------------|-------------------------------------------|------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------------|------------------------------------------|
| Balances at December 31, 2000 | 6,851,816 | \$343,000 | \$34,867,000 | \$ 4,421,000 | \$(686,000) | \$(944,000) | \$38,001,000 |
| Exercise of stock options, including tax benefits | 7,500 | | 10,000 | | | | 10,000 |
| Reduction of employee notes receivable 1999 Loan Program | | | | | | 31,000 | 31,000 |
| Common stock repurchased | (61,226) | (3,000) | (133,000) | | | | (136,000) |
| Other, net | (472) | | (5,000) | | (2,000) | | (7,000) |
| Net income | | | | 271,000 | | | 271,000 |
| Balances at December 30, 2001 | 6,797,618 | 340,000 | 34,739,000 | 4,692,000 | (688,000) | (913,000) | 38,170,000 |
| Exercise of stock options, including tax benefits | 61,132 | 3,000 | 164,000 | | | | 167,000 |
| Reduction of employee notes receivable 1999 Loan Program | | | | | | 183,000 | 183,000 |
| Common stock repurchased | (198,215) | (10,000) | (546,000) | | | | (556,000) |
| Net income | | | | 2,835,000 | | | 2,835,000 |
| Balances at December 29, 2002 | 6,660,535 | 333,000 | 34,357,000 | 7,527,000 | (688,000) | (730,000) | 40,799,000 |
| Exercise of stock options, including tax benefits | 50,982 | 3,000 | 145,000 | | | | 148,000 |

| | | | | | | |
|-------------------------------------------------------------------|-------------------|-------------------|---------------------|---------------------|--------------------|--------------------|
| Reduction of employee notes receivable 1999 Loan Program | | | | | 206,000 | 206,000 |
| Reduction of note receivable | | | | | | |
| Employee Stock Ownership Plan | | | | 318,000 | | 318,000 |
| Common stock repurchased | (277,564) | (14,000) | (850,000) | | | (864,000) |
| Other, net | (1,235) | | (7,000) | | | (7,000) |
| Net income | | | | 3,832,000 | | 3,832,000 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Balances at December 28, 2003 | 6,432,718 | \$322,000 | \$33,645,000 | \$11,359,000 | \$(370,000) | \$(524,000) |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

See Notes to Consolidated Financial Statements.

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**J. Alexander's Corporation and Subsidiaries
Notes to Consolidated Financial Statements**

Note A - Significant Accounting Policies

Basis of Presentation: The Consolidated Financial Statements include the accounts of J. Alexander's Corporation and its wholly-owned subsidiaries (the Company). At December 28, 2003, the Company owned and operated 27 J. Alexander's restaurants in twelve states throughout the United States. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made in the prior years Consolidated Financial Statements to conform to the 2003 presentation.

Fiscal Year: The Company's fiscal year ends on the Sunday closest to December 31 and each quarter typically consists of thirteen weeks.

Cash Equivalents: Cash equivalents consist of highly liquid investments with an original maturity of three months or less when purchased.

Property and Equipment: Depreciation and amortization are provided on the straight-line method over the following estimated useful lives: buildings - 30 years, restaurant and other equipment - two to 10 years, and capital leases and leasehold improvements - lesser of life of assets or terms of leases, generally including renewal options.

Deferred Charges: Debt issue costs are amortized principally by the interest method over the life of the related debt.

Income Taxes: The Company accounts for income taxes under the liability method required by Statement of Financial Accounting Standards (SFAS) No. 109 Accounting for Income Taxes. SFAS No. 109 requires that deferred tax assets and liabilities be established based on the difference between the financial statement and income tax bases of assets and liabilities measured at tax rates that will be in effect when the differences reverse. Realization of deferred tax assets, which relate primarily to tax credit carryforwards, is dependent on future earnings from existing and new restaurants. Accordingly, a valuation allowance responsive to uncertainties associated with future earnings has been established.

Earnings Per Share: The Company accounts for earnings per share in accordance with SFAS No. 128 Earnings Per Share.

Revenue Recognition: Restaurant revenues are recognized when food and service are provided. Unearned revenue consists of gift certificates sold, but not redeemed.

Pre-opening Costs: The Company accounts for pre-opening costs by expensing such costs as they are incurred, consistent with the requirements under the American Institute of Certified Public Accountants' Statement of Position 98-5 Reporting on the Costs of Start-Up Activities.

Fair Value of Financial Instruments: The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheet for cash and cash equivalents approximates fair value.

Long-term debt: The fair value of long-term mortgage financing is determined using current applicable rates for similar instruments and collateral as of the balance sheet date (see Note D). Due to the immaterial amounts involved,

fair value of other long-term debt was estimated to approximate its carrying amount.

Contingent liabilities: In connection with the sale of its Mrs. Winner's Chicken & Biscuit restaurant operations and the disposition of its Wendy's restaurant operations, the Company remains secondarily liable for certain real and personal property leases. The Company does not believe it is practicable to estimate the fair value of these contingencies and does not believe any significant loss is likely.

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Development Costs: Certain direct and indirect costs are capitalized as building and leasehold improvement costs in conjunction with acquiring and developing new J. Alexander's restaurant sites and amortized over the life of the related asset. Development costs of \$167,000, \$164,000 and \$165,000 were capitalized during 2003, 2002 and 2001, respectively.

Self-Insurance: The Company is generally self-insured, subject to stop-loss limitations, for losses and liabilities related to its group medical plan. Losses are accrued based upon the Company's estimates of the aggregate liability for claims incurred but not paid.

Advertising Costs: The Company charges costs of advertising to expense at the time the costs are incurred. Advertising expense was \$31,000, \$28,000 and \$29,000 in 2003, 2002 and 2001, respectively.

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 SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:

| | Years Ended | | |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------|------------------------------|------------------------------|
| | December 28, 2003 | December 29, 2002 | December 30, 2001 |
| Net income, as reported | \$3,832,000 | \$ 2,835,000 | \$ 271,000 |
| Deduct: Total stock-based employee compensation expense determined under fair value methods for all awards, net of related tax effects | 99,000 | 139,000 | 225,000 |
| Pro forma net income | \$3,733,000 | \$ 2,696,000 | \$ 46,000 |
| Net income per share: | | | |
| Basic, as reported | \$.59 | \$.42 | \$.04 |
| Basic, pro forma | \$.57 | \$.40 | \$.01 |
| Diluted, as reported | \$.57 | \$.42 | \$.04 |
| Diluted, pro forma | \$.56 | \$.40 | \$.01 |
| Weighted average shares used in computation: | | | |
| Basic | 6,519,000 | 6,757,000 | 6,840,000 |
| Diluted | 6,693,000 | 6,812,000 | 6,841,000 |

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 period. See Note G for further discussion of the Company's stock-based employee compensation.

Use of Estimates in Financial Statements: Judgment and estimation are utilized by management in certain areas in the preparation of the Company's financial statements. Some of the more significant areas include determination of the

valuation allowance relative to the Company's deferred tax assets, estimates of useful lives of property and equipment and leasehold improvements, and accounting for impairment losses, contingencies and litigation.

Impairment: SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, requires impairment losses to be recorded on long-lived assets used in operations when indicators of impairment are present and undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amounts. Accordingly, when indicators of impairment are present with respect to an individual restaurant, the Company periodically evaluates the carrying value of that restaurant's property and equipment and intangible assets.

Comprehensive Income: The Company has no items of comprehensive income as defined under SFAS No. 130, Reporting Comprehensive Income.

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Business Segments: In accordance with the requirements of SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information, management has determined that the Company operates in only one segment.

Recent Accounting Pronouncements: In June 2002, the Financial Accounting Standards Board (FASB) issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS No. 146 supersedes Emerging Issues Task Force (EITF) No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring). SFAS No. 146 eliminates the provisions of EITF No. 94-3 that required a liability to be recognized for certain exit or disposal activities at the date an entity committed to an exit plan. SFAS No. 146 requires a liability for costs associated with an exit or disposal activity to be recognized when the liability is incurred. SFAS No. 146 became effective for exit or disposal activities initiated after December 31, 2002. The adoption of this statement had no impact on the Company's results of operations or financial position.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure. SFAS No. 148 amends SFAS No. 123 to provide alternative methods of transition to SFAS No. 123's fair value method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure provisions of SFAS No. 123 and APB Opinion No. 28, Interim Financial Reporting to require disclosure in the summary of significant accounting policies of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net income and earnings per share in annual and interim financial statements. While SFAS No. 148 does not amend SFAS No. 123 to require companies to account for employee stock options using the fair value method, the disclosure provisions of SFAS No. 148 are applicable to all companies with stock-based employee compensation, regardless of whether they account for that compensation using the fair value method of SFAS No. 123 or the intrinsic value method of APB Opinion No. 25. As allowed by SFAS No. 123, the Company has elected to continue to utilize the accounting method prescribed by APB Opinion No. 25 and has adopted the disclosure requirements of SFAS No. 123 and SFAS No. 148.

In January 2003, the FASB issued FASB Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, which addresses consolidation by business enterprises of variable interest entities (VIEs) either: (1) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support, or (2) in which the equity investors lack an essential characteristic of a controlling financial interest. In December 2003, the FASB issued modifications to FIN 46 (Revised Interpretations) resulting in multiple effective dates based on the nature as well as the creation date of the VIE. VIEs created after January 31, 2003, but prior to January 1, 2004, may be accounted for either based on the original interpretation or the Revised Interpretations. However, the Revised Interpretations must be applied no later than the first quarter of 2004. VIEs created after January 1, 2004 must be accounted for under the Revised Interpretations. Non-Special Purpose Entities created prior to February 1, 2003, should be accounted for under the revised interpretation's provisions no later than the first quarter of fiscal 2004. The Company has adopted FIN 46, which did not have an impact on the Company's Consolidated Financial Statements upon adoption, and the Company does not expect the Revised Interpretations to have an impact on the Company's Consolidated Financial Statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity, and imposes certain additional disclosure requirements. The provisions of SFAS No. 150 are generally effective for all financial instruments entered into or modified after May 31, 2003, and otherwise became effective at the beginning of the first interim period beginning after June 15, 2003. The Company has adopted SFAS No. 150 and it had no impact on the Company's Consolidated Financial Statements.

Reclassifications: Certain reclassifications have been made to the 2002 and 2001 consolidated financial statements to conform with the 2003 presentation. Changes in the Company's cash overdraft balance during fiscal years 2002 and 2001 have been reflected in the Company's Consolidated Statements of Cash Flows as financing activities instead of operating activities. The Company had no cash overdraft balances at December 28, 2003 or December 29, 2002.

Table of Contents**Note B - Earnings Per Share**

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

| | Years Ended | | |
|-------------------------------------------------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | December 28 2003 | December 29 2002 | December 30 2001 |
| Numerator: | | | |
| Net income (numerator for basic earnings per share) | \$3,832,000 | \$2,835,000 | \$ 271,000 |
| Effect of dilutive securities | <u> </u> | <u> </u> | <u> </u> |
| Net income after assumed conversions (numerator for diluted earnings per share) | \$3,832,000 | \$2,835,000 | \$ 271,000 |
| | <u> </u> | <u> </u> | <u> </u> |
| Denominator: | | | |
| Weighted average shares (denominator for basic earnings per share) | 6,519,000 | 6,757,000 | 6,840,000 |
| Effect of dilutive securities | 174,000 | 55,000 | 1,000 |
| | <u> </u> | <u> </u> | <u> </u> |
| Adjusted weighted average shares and assumed conversions (denominator for diluted earnings per share) | 6,693,000 | 6,812,000 | 6,841,000 |
| | <u> </u> | <u> </u> | <u> </u> |
| Basic earnings per share | \$.59 | \$.42 | \$.04 |
| | <u> </u> | <u> </u> | <u> </u> |
| Diluted earnings per share | \$.57 | \$.42 | \$.04 |
| | <u> </u> | <u> </u> | <u> </u> |

In situations where the exercise price of outstanding options is greater than the average market price of common shares, such options are excluded from the computation of diluted earnings per share because of their antidilutive impact. A total of 295,000, 420,000 and 822,000 options were excluded from the computation of diluted earnings per share in 2003, 2002 and 2001, respectively.

Note C - Property and Equipment

Balances of major classes of property and equipment are as follows:

December 28**December 29**

| | 2003 | 2002 |
|---------------------------------------------------|----------------------|---------------|
| Land | \$ 16,092,000 | \$ 14,340,000 |
| Buildings | 38,238,000 | 33,497,000 |
| Buildings under capital leases | 651,000 | 276,000 |
| Leasehold improvements | 26,914,000 | 23,903,000 |
| Restaurant and other equipment | 21,649,000 | 18,963,000 |
| Construction in progress | | 4,789,000 |
| | 103,544,000 | 95,768,000 |
| Less allowances for depreciation and amortization | (29,931,000) | (26,247,000) |
| | \$ 73,613,000 | \$ 69,521,000 |

Table of Contents**Note D - Long-Term Debt and Obligations Under Capital Leases**

Long-term debt and obligations under capital leases at December 28, 2003, and December 29, 2002, are summarized below:

| | December 28, 2003 | | December 29, 2002 | |
|-------------------------------------------------------------------------------|-------------------|---------------------|--------------------|---------------------|
| | Current | Long-Term | Current | Long-Term |
| Mortgage loan, 8.6% interest, payable through 2022 | \$559,000 | \$23,876,000 | \$ 521,000 | \$24,436,000 |
| Convertible Subordinated Debentures, 8.3%, due 2003 | | | 6,250,000 | |
| Bank credit agreement, at variable interest rates ranging from 3.6% to 3.8% | | 486,000 | | |
| Obligations under capital lease, 9.9% to 11.5% interest, payable through 2015 | 90,000 | 280,000 | 15,000 | 15,000 |
| | <u>\$649,000</u> | <u>\$24,642,000</u> | <u>\$6,786,000</u> | <u>\$24,451,000</u> |

Aggregate maturities of long-term debt for the five years succeeding December 28, 2003, are as follows: 2004 - \$649,000; 2005 - \$630,000 ; 2006 - \$1,163,000; 2007 - \$735,000; 2008 - \$792,000.

In October 2002, the Company obtained \$25,000,000 of long-term financing through completion of a mortgage loan transaction. 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. Net proceeds from the mortgage loan, after deducting fees and expenses associated with the transaction, were approximately \$24,275,000. A portion of these funds 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 of Convertible Subordinated Debentures which matured June 1, 2003.

Provisions of the mortgage loan and related agreements require that a minimum fixed charge coverage ratio be maintained for the restaurants securing the loan and that the Company's leverage ratio not exceed a specified level. 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 \$25,418,000 at December 28, 2003. The real property at these locations is owned by JAX Real Estate, LLC, the entity which is the borrower under the loan agreement and which leases the properties 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.

In addition to JAX Real Estate, LLC, other wholly-owned subsidiaries of the Company, JAX RE Holdings, LLC and JAX Real Estate Management, Inc., act as a holding company and a member of the board of managers of JAX

Real Estate, LLC, respectively. While all of these subsidiaries are included in the Company's Consolidated Financial Statements, each of them 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.

In May 2003, the Company entered into a secured bank line of credit agreement which will provide 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 agreement is currently approximately \$4,600,000 and is based on a percentage of the appraised value of the collateral securing the agreement. Borrowings outstanding under this line of credit totaled \$486,000 at December 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 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 \$8,157,000 at December 28, 2003 and bears interest 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 opened during 2003, the Company recorded a capital building lease asset and a capital building lease obligation in the amount of \$375,000. For cash flow purposes, this transaction was considered a non-cash investing and financing activity.

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Cash interest payments amounted to \$2,309,000, \$1,314,000 and \$1,469,000, in 2003, 2002 and 2001, respectively. Interest costs of \$108,000, \$103,000 and \$134,000 were capitalized as part of building and leasehold costs in 2003, 2002 and 2001, respectively.

The carrying value and estimated fair value of the Company's mortgage loan were \$24,435,000 and \$26,931,000, respectively, at December 28, 2003.

Note E Leases

At December 28, 2003, the Company was lessee under both ground leases (the Company leases the land and builds its own buildings) and improved leases (lessor owns the land and buildings) for restaurant locations. These leases are generally operating leases.

Real estate lease terms are generally for 15 to 20 years and, in many cases, provide for rent escalations and for one or more five-year renewal options. The Company is generally obligated for the cost of property taxes, insurance and maintenance. Certain real property leases provide for contingent rentals based upon a percentage of sales. In addition, the Company is lessee under other noncancellable operating leases, principally for office space.

Accumulated amortization of buildings under capital leases totaled \$284,000 at December 28, 2003 and \$276,000 at December 29, 2002. Amortization of leased assets is included in depreciation and amortization expense.

Total rental expense amounted to:

| | Years Ended | | |
|----------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | December 28 2003 | December 29 2002 | December 30 2001 |
| Minimum rentals under operating leases | \$2,444,000 | \$2,360,000 | \$2,101,000 |
| Contingent rentals | 29,000 | 7,000 | 56,000 |
| Less: Sublease rentals | (119,000) | (119,000) | (112,000) |
| | \$2,354,000 | \$2,248,000 | \$2,045,000 |

At December 28, 2003, future minimum lease payments under capital leases and noncancellable operating leases (including renewal options) with initial terms of one year or more are as follows:

| | Capital Leases | Operating Leases |
|------|---------------------------|-----------------------------|
| 2004 | \$ 123,000 | \$ 2,360,000 |
| 2005 | 42,000 | 2,176,000 |

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| | | |
|----------------------------------------------|------------------|-------------------|
| 2006 | 36,000 | 2,137,000 |
| 2007 | 36,000 | 2,098,000 |
| 2008 | 36,000 | 2,120,000 |
| Thereafter | 318,000 | 41,750,000 |
| | <u>591,000</u> | <u>48,113,000</u> |
| Total minimum payments | 591,000 | \$52,641,000 |
| | <u>(221,000)</u> | |
| Less imputed interest | (221,000) | |
| | <u>370,000</u> | |
| Present value of minimum rental payments | 370,000 | |
| Less current maturities at December 28, 2003 | (90,000) | |
| | <u>280,000</u> | |
| Long-term obligations at December 28, 2003 | \$ 280,000 | |

Minimum future rentals receivable under subleases for operating leases at December 28, 2003, amounted to \$283,000.

Table of Contents**Note F - Income Taxes**

Significant components of the income tax provision (benefit) are as follows:

| | Years Ended | | |
|-----------------------------------|-----------------------------|-----------------------------|---------------------------------|
| | December 28 2003 | December 29 2002 | December 33 2001 |
| Current: | | | |
| Federal | \$ 262,000 | \$ 777,000 | \$542,000 |
| State | 91,000 | 25,000 | 89,000 |
| | <hr/> | <hr/> | <hr/> |
| Total | 353,000 | 802,000 | 631,000 |
| Deferred: | | | |
| Federal | (1,320,000) | (1,074,000) | |
| State | (155,000) | (126,000) | |
| | <hr/> | <hr/> | <hr/> |
| Total | (1,475,000) | (1,200,000) | |
| | <hr/> | <hr/> | <hr/> |
| Income tax provision (benefit) | \$ (1,122,000) | \$ (398,000) | \$ 631,000 |
| | <hr/> | <hr/> | <hr/> |

The Company's consolidated effective tax rate differed from the federal statutory rate as set forth in the following table:

| | Years Ended | | |
|---------------------------------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | December 28 2003 | December 29 2002 | December 30 2001 |
| Tax expense computed at federal statutory rate (34%) | \$ 921,000 | \$ 887,000 | \$ 307,000 |
| State income taxes, net of federal benefit | 60,000 | (67,000) | 59,000 |
| Effect of net operating loss carryforwards and tax credits | (302,000) | (1,048,000) | (450,000) |
| Increase (decrease) in valuation allowance | (1,590,000) | 377,000 | 635,000 |
| Previously accrued taxes | (182,000) | | |
| Other, net | (29,000) | (547,000) | 80,000 |
| | <hr/> | <hr/> | <hr/> |
| Income tax provision (benefit) | \$ (1,122,000) | \$ (398,000) | \$ 631,000 |

During 2003, the Company reversed previously accrued federal income taxes payable of \$182,000, resulting in a reduction in the current federal provision. The Company made net income tax payments of \$746,000, \$845,000 and \$344,000 in 2003, 2002 and 2001, respectively.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 28, 2003, and December 29, 2002, are as follows:

| | December 28 2003 | December 29 2002 |
|---------------------------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> |
| Deferred tax liabilities: | | |
| Tax over book depreciation | \$ 196,000 | \$ 11,000 |
| Deferred tax assets: | | |
| Capital/finance leases | 12,000 | 12,000 |
| Deferred compensation accruals | 392,000 | 382,000 |
| Self-insurance accruals | 48,000 | 56,000 |
| Net operating loss carryforwards | 362,000 | 606,000 |
| Tax credit carryforwards | 4,738,000 | 4,457,000 |
| Other - net | 660,000 | 629,000 |
| | <u> </u> | <u> </u> |
| Total deferred tax assets | 6,212,000 | 6,142,000 |
| Valuation allowance for deferred tax assets | (3,341,000) | (4,931,000) |
| | <u> </u> | <u> </u> |
| | 2,871,000 | 1,211,000 |
| | <u> </u> | <u> </u> |
| Net deferred tax assets | \$ 2,675,000 | \$ 1,200,000 |
| | <u> </u> | <u> </u> |

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At December 28, 2003, the Company had tax credit carryforwards of \$4,738,000 available to reduce future federal income taxes. These carryforwards consist of FICA tip credits which expire in the years 2009 through 2023 and alternative minimum tax credits which may be carried forward indefinitely. In addition, the Company had net operating loss carryforwards of \$8,800,000, which expire from 2004 to 2020, available to reduce state income taxes. The use of these net operating losses is limited to the future taxable earnings of certain of the Company's subsidiaries.

SFAS No. 109 establishes procedures to measure deferred tax assets and liabilities and assess whether a valuation allowance relative to existing deferred tax assets is necessary. Prior to 2002, the valuation allowance was established at an amount necessary to fully reserve the net deferred tax asset balances. In the fourth quarter of 2002, the valuation allowance was reduced by \$1,200,000, resulting in a corresponding credit to deferred income tax expense. In the fourth quarter of 2003, the valuation allowance was reduced by an additional \$1,475,000, resulting in a corresponding credit to deferred income tax expense. It is the Company's belief that the future recognition of \$2,675,000 of its deferred tax assets is more likely than not. The valuation allowance decreased by \$1,590,000 (including the \$1,475,000 decrease discussed above) during the year ended December 28, 2003.

Note G - Stock Options and Benefit Plans

Under the Company's 1994 Employee Stock Incentive Plan, directors, officers and key employees of the Company may be granted options to purchase shares of the Company's common stock. Options to purchase the Company's common stock also remain outstanding under the Company's 1990 Stock Option Plan for Outside Directors, although the Company no longer has the ability to issue additional shares under this plan.

A summary of options under the Company's option plans is as follows:

| Options | Shares | Option | Prices | Weighted Average Exercise Price |
|----------------------------------|---------------|---------------|---------------|----------------------------------------------------|
| Outstanding at December 31, 2000 | 761,630 | \$ 1.38- | \$11.69 | \$ 4.27 |
| Issued | 186,000 | 2.07- | 2.25 | 2.23 |
| Exercised | (7,500) | 1.38 | | 1.38 |
| Expired or canceled | (28,450) | 2.24- | 11.69 | 4.04 |
| Outstanding at December 30, 2001 | 911,680 | 2.07- | 11.69 | 3.97 |
| Issued | 4,000 | 3.15 | | 3.15 |
| Exercised | (61,132) | 2.25- | 3.81 | 2.73 |
| Expired or canceled | (66,488) | 2.07- | 3.44 | 2.49 |
| Outstanding at December 29, 2002 | 788,060 | 2.07- | 11.69 | 4.28 |
| Issued | 93,000 | 4.25- | | 4.25 |
| Exercised | (50,982) | 2.24- | 3.44 | 2.72 |
| Expired or canceled | (40,768) | 2.07- | 10.50 | 7.63 |
| Outstanding at December 28, 2003 | 789,310 | \$ 2.08- | \$11.69 | \$ 4.32 |



Options exercisable and shares available for future grant are as follows:

| | December 28 2003 | December 29 2002 | December 30 2001 |
|----------------------------|---------------------------------|---------------------------------|---------------------------------|
| Options exercisable | 658,810 | 671,632 | 686,845 |
| Shares available for grant | 66,912 | 144,144 | 80,656 |

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The following table summarizes information about the Company's stock options outstanding at December 28, 2003:

| | | <u>Options Outstanding</u> | | | <u>Options Exercisable</u> | |
|-----------------|----------------|----------------------------|--------------------|-----------------|----------------------------|-----------------|
| <u>Range of</u> | <u>Prices</u> | <u>Number</u> | <u>Weighted</u> | <u>Weighted</u> | <u>Number</u> | <u>Weighted</u> |
| | | | | | | |
| <u>Exercise</u> | | <u>at</u> | <u>Remaining</u> | <u>Exercise</u> | <u>December</u> | <u>Exercise</u> |
| | | <u>December</u> | <u>Contractual</u> | <u>Price</u> | <u>28</u> | <u>Price</u> |
| | | <u>2003</u> | <u>Life</u> | | <u>2003</u> | |
| \$2.08- | \$ 2.25 | 113,500 | 7.3 years | \$ 2.24 | 76,667 | \$ 2.24 |
| 2.75- | 3.44 | 208,810 | 4.9 years | 2.81 | 208,143 | 2.81 |
| 3.81- | 5.69 | 339,000 | 6.6 years | 4.28 | 246,000 | 4.30 |
| 7.38- | 11.69 | 128,000 | 1.7 years | 8.75 | 128,000 | 8.75 |
| <u>\$2.08-</u> | <u>\$11.69</u> | <u>789,310</u> | | <u>\$ 4.32</u> | <u>658,810</u> | <u>\$ 4.45</u> |

Options exercisable at December 29, 2002 and December 30, 2001 had weighted average exercise prices of \$4.44 and \$4.21, respectively. The weighted average fair value per share for options granted during 2003, 2002 and 2001 was \$2.49, \$1.92 and \$1.36, respectively. These fair values were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2003, 2002 and 2001, respectively: risk-free interest rates of 4.16%, 5.24% and 5.31%; no annual dividend yield; volatility factors of .4069, .4043 and .4173 based on monthly closing prices since August, 1990; and an expected option life of 10 years.

The Company has an Employee Stock Purchase Plan under which 75,547 shares of the Company's common stock are available for issuance. No shares have been issued under the plan since 1997.

The Company has a Salary Continuation Plan which provides retirement and death benefits to certain key employees. The expense recognized under this plan was \$152,000, \$170,000 and \$150,000 in 2003, 2002 and 2001, respectively.

The Company has a Savings Incentive and Salary Deferral Plan under Section 401(k) of the Internal Revenue Code which allows qualifying employees to defer a portion of their income on a pre-tax basis through contributions to the plan. All Company employees with at least 1,000 hours of service during the twelve month period subsequent to their hire date, or any calendar year thereafter, and who are at least 21 years of age are eligible to participate. For each dollar of participant contributions, up to 3% of each participant's salary, the Company makes a minimum 10% matching contribution to the plan. The Company's matching contribution for 2003 totaled \$40,000, or 25% of eligible participant contributions. For 2002 and 2001 the Company's matching contribution expense was \$39,000 and \$40,000,

respectively.

In 1999, the Company established the 1999 Loan Program (Loan Program) to allow eligible employees to make purchases of the Company's common stock. Under the terms of the Loan Program, all full-time employees as well as part-time employees who had at least five years of employment with the Company were eligible to borrow amounts ranging from a minimum of \$10,000 to a maximum of 100% of their annual salary. Borrowings in excess of the maximum were allowed upon approval by the Compensation Committee or the officers of the Company, as applicable. All employee borrowings were used exclusively to purchase shares of the Company's common stock and accrue interest at the rate of 3% annually from the date of the last purchase of shares under the program until paid in full. Interest is payable quarterly until December 31, 2006, at which time the entire unpaid principal amount and unpaid interest will be due. In the event that a participant receives bonus compensation from the Company, 30% of any such bonus is to be applied to the outstanding principal balance of the note. Further, a participant's loan may be declared due and payable upon termination of a participant's employment or failure to make any payment when due, as well as under other circumstances set forth in the program documents. The maximum aggregate amount of loans authorized was \$1,000,000. As of December 28, 2003 notes receivable under the Loan Program totaled \$524,000. This amount has been reported as a reduction from the Company's stockholders' equity.

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Participants in the Loan Program also received a stock bonus award of one share of common stock for every 20 shares of common stock purchased under the program and an award of one share of restricted common stock for every 20 shares of common stock purchased under the program. Both the stock bonus award shares and the restricted stock award shares were issued pursuant to the Company's 1994 Employee Stock Incentive Plan, with the restricted stock award vesting at the rate of 20% of the number of shares awarded on each of the second through sixth anniversaries of the date of the last purchase of shares under the Loan Program.

For purposes of computing earnings per share, the shares purchased through the Loan Program are included as outstanding shares in the weighted average share calculation.

Note H - Employee Stock Ownership Plan

In 1992, the Company established an Employee Stock Ownership Plan (ESOP) which purchased 457,055 shares of Company common stock from a trust created by the late Jack C. Massey, the Company's former Board Chairman, and the Jack C. Massey Foundation at \$3.75 per share for an aggregate purchase price of \$1,714,000. The Company funded the ESOP by loaning it an amount equal to the purchase price, with the loan secured by a pledge of the unallocated stock held by the ESOP. The note receivable from the ESOP has been reported as a reduction from the Company's stockholders' equity.

The Company has made a contribution to the ESOP in each calendar year since the ESOP was established allowing the ESOP to make its scheduled loan repayments to the Company, with the exception of 1996, when no contribution was made, and 2000 and 2001, when only the interest component of the contribution was made. Compensation expense of \$165,000 was recorded with respect to the 2003 ESOP contribution. The terms of the ESOP note, as amended, call for interest to be paid at an annual rate of 8% and for repayment of the ESOP note's remaining principal in annual amounts of \$178,000 and \$192,000 during fiscal 2004 and 2005, respectively.

All Company employees with at least 1,000 hours of service during the twelve month period subsequent to their hire date, or any calendar year thereafter, and who are at least 21 years of age are eligible to participate. The ESOP generally requires five years of service with the Company in order for an ESOP participant's account to vest. Allocation of stock is made to participants' accounts as the ESOP's loan is repaid and is in proportion to each participant's compensation for each year. A total of 65,969 shares remain unallocated as of December 28, 2003.

For purposes of computing earnings per share, the shares originally purchased by the ESOP are included as outstanding shares in the weighted average share calculation.

Note I - Shareholder Rights Plan

The Company's Board of Directors has adopted a shareholder rights plan intended to protect the interests of the Company's shareholders if the Company is confronted with coercive or unfair takeover tactics, by encouraging third parties interested in acquiring the Company to negotiate with the Board of Directors.

The shareholder rights plan is a plan by which the Company has distributed rights (Rights) to purchase (at the rate of one Right per share of common stock) one-hundredth of a share of no par value Series A Junior Preferred (a Unit) at an exercise price of \$12.00 per Unit. The Rights are attached to the common stock and may be exercised only if a person or group acquires 20% of the outstanding common stock or initiates a tender or exchange offer that would result in such person or group acquiring 10% or more of the outstanding common stock. Upon such an event, the Rights flip-in and each holder of a Right will thereafter have the right to receive, upon exercise, common stock having a value equal to two times the exercise price. All Rights beneficially owned by the acquiring person or group triggering the flip-in will be null and void. Additionally, if a third party were to take certain action to acquire the

Company, such as a merger or other business combination, the Rights would flip-over and entitle the holder to acquire shares of the acquiring person with a value of two times the exercise price. The Rights are redeemable by the Company at any time before they become exercisable for \$0.01 per Right and expire May 16, 2004. In order to prevent dilution, the exercise price and number of Rights per share of common stock will be adjusted to reflect splits and combinations of, and common stock dividends on, the common stock.

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During 1999, the shareholder rights plan was amended by altering the definition of "acquiring person" to specify that Solidus LLC, predecessor to Solidus Company, and its affiliates would not be or become an acquiring person as the result of its acquisition of Company stock in excess of 20% or more of Company common stock outstanding. E. Townes Duncan, a director of the Company, is a minority owner of and manages the investments of Solidus Company.

Note J - 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 twelve years. The total estimated amount of lease payments remaining on these 28 individual leases at December 28, 2003 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 and personal property leases with remaining terms of one to five years. The total estimated amount of lease payments remaining on these 29 individual leases at December 28, 2003, was approximately \$3.3 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 individual leases as of December 28, 2003, was approximately \$1.3 million.

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.

Note K - Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities included the following:

| | December 28 2003 | December 29 2002 |
|----------------------------------|-----------------------------|-----------------------------|
| | <hr/> | <hr/> |
| Taxes, other than income taxes | \$1,420,000 | \$1,688,000 |
| Salaries, wages and vacation pay | 1,101,000 | 951,000 |
| Insurance | 266,000 | 198,000 |
| Interest | 160,000 | 205,000 |
| State and federal income taxes | (87,000) | 307,000 |
| Bonus compensation | 120,000 | 377,000 |
| ESOP contribution | | 152,000 |
| Other | 1,197,000 | 1,104,000 |
| | <hr/> | <hr/> |
| | \$4,177,000 | \$4,982,000 |
| | <hr/> | <hr/> |

Note L - Goodwill and Other Intangible Assets

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142, Goodwill and Other Intangible Assets, which eliminated the systematic amortization of goodwill. The Company adopted SFAS No. 142, effective December 31, 2001, and ceased amortization of its goodwill balance. However, intangible assets with finite lives continue to be amortized over their estimated useful lives.

SFAS No. 142 also required the Company to complete an impairment review of its goodwill. During the fourth quarter of 2002, the Company completed its transitional impairment test and determined that the goodwill associated with the acquisition of its original restaurant was impaired. Accordingly, the Company recorded as a cumulative effect of change in accounting principle a write-off of its goodwill balance in the amount of \$171,000 on which the Company recognized no tax benefit. Prior to the Company's adoption of SFAS No. 142, annual amortization of goodwill totaled \$5,000.

The remaining intangible assets recorded on the accompanying consolidated balance sheet at December 28, 2003 include deferred loan costs and other intangible assets with finite lives and are scheduled to be amortized as follows: 2004 - \$120,000; 2005 - \$93,000; 2006 - \$65,000; 2007 - \$54,000; 2008 - \$53,000.

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Note M Related Party Transactions

E. Townes Duncan, a director of the Company, is a minority owner of and manages the investments of Solidus Company, the Company's largest shareholder. In 1999, Solidus entered into a Stock Purchase and Standstill Agreement which generally precludes Solidus from acquiring in excess of 33% of the Company's outstanding voting securities, soliciting proxies with respect to the Company's voting securities, depositing any voting securities in a voting trust or any similar arrangement and selling, transferring or otherwise disposing of any of the Company's voting securities. Such restrictions are subject to termination should certain events transpire. The agreement expires on March 22, 2006.

In August 2003, Solidus and the Company executed the First Amendment to Stock Purchase and Standstill Agreement. Under the terms of this agreement, the Company authorized Solidus to pledge the common stock of the Company owed by it as collateral security for the payment and performance of Solidus' obligations under a credit agreement with a bank. In the event that Solidus defaults on its obligations to the bank, and such default results in the need to liquidate the related collateral, the bank is required to give the Company written notice of the number of shares it intends to sell and the price at which such shares are to be sold. The Company has the exclusive right within the first 30 days subsequent to receipt of such written notice to purchase all or any portion of the shares subject to sale and, should the Company decline to purchase any of the applicable shares, the bank may sell such shares over the ensuing 50 days on terms no more favorable than the terms stated in the written notice referred to above.

Table of Contents**Quarterly Results of Operations**

The following is a summary of the quarterly results of operations for the years ended December 28, 2003 and December 29, 2002 (in thousands, except per share amounts):

| | 2003 Quarters Ended | | | |
|-------------------------------------------------------------------|----------------------------|----------------|---------------------|--------------------|
| | March 30 | June 29 | September 28 | December 28 |
| Net sales | \$26,450 | \$26,415 | \$ 25,832 | \$28,362 |
| Net income | \$ 631 | \$ 515 | \$ 385 | \$ 2,301(1) |
| Basic earnings per share | \$.10 | \$.08 | \$.06 | \$.36 |
| Diluted earnings per share | \$.09 | \$.08 | \$.06 | \$.34 |
| | | | | |
| | 2002 Quarters Ended | | | |
| | March 31 | June 30 | September 29 | December 29 |
| Net sales | \$25,632 | \$24,350 | \$ 23,698 | \$25,099 |
| Income before cumulative effect of change in accounting principle | \$ 577 | \$ 324 | \$ 44 | \$ 2,061(2) |
| Net income | \$ 406(3) | \$ 324 | \$ 44 | \$ 2,061 |
| Basic earnings per share: | | | | |
| Income before cumulative effect of change in accounting principle | \$.09 | \$.05 | \$.01 | \$.31 |
| Cumulative effect of change in accounting principle | \$ (.03) | \$ | \$ | \$ |
| Basic earnings per share | \$.06 | \$.05 | \$.01 | \$.31 |
| Diluted earnings per share: | | | | |
| Income before cumulative effect of change in accounting principle | \$.08 | \$.05 | \$.01 | \$.31 |
| Cumulative effect of change in accounting principle | \$ (.02) | \$ | \$ | \$ |
| Diluted earnings per share | \$.06 | \$.05 | \$.01 | \$.31 |

(1) Includes favorable adjustment of \$1,475 related to recognition of deferred income tax assets in accordance with SFAS No. 109 Accounting for Income Taxes. Also includes favorable adjustment of \$130 related to a decrease in the accrual for bonuses to be paid to the corporate staff.

(2) Includes favorable adjustment of \$1,200 related to recognition of deferred income tax assets in accordance with SFAS No. 109.

- (3) Net income for the quarter ended March 31, 2002 has been restated to reflect the adoption of SFAS No. 142 Goodwill and Other Intangible Assets effective December 31, 2001.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

The Company has established and maintains disclosure controls and procedures that are designed to ensure that material information relating to the Company and its subsidiaries required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized, and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure. The Company carried out an evaluation, under the supervision and with the participation of management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2003 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required under this item with respect to directors of the Company is incorporated herein by reference to the Proposal No. 1: Election of Directors section, the Corporate Governance section and the Section 16(a) Beneficial Ownership Reporting Compliance section of the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders. (See also Executive Officers of the Company under Part I of this Form 10-K.)

The Company's Board of Directors has adopted a Code of Business Conduct and Ethics applicable to the members of the Board of Directors and the Company's officers, including its Chief Executive Officer and Chief Financial Officer. You can access the Company's Code of Business Conduct and Ethics on its website at www.jalexanders.com or request a copy by writing to the following address: J. Alexander's Corporation, Suite 260, 3401 West End Avenue, Nashville Tennessee 37203. The Company will make any legally required disclosures regarding amendments to, or waivers of, provisions of the Code of Business Conduct and Ethics on its website.

Item 11. Executive Compensation

The information required under this item is incorporated herein by reference to the Executive Compensation section of the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required under this item is incorporated herein by reference to the Security Ownership of Certain Beneficial Owners and Management section and the Securities Authorized for Issuance Under Equity Compensation Plans section of the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders.

Item 13. Certain Relationships and Related Transactions.

The information required under this item is incorporated herein by reference to the Certain Relationships and

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Related Transactions section of the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders.

Item 14. Principal Accountant Fees and Services

The information required under this item is incorporated herein by reference to the Relationship with Independent Auditors section of the Company's Proxy Statement for the 2004 Annual Meeting of Shareholders.

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PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

- (a)(1) See Item 8.
- (a)(2) The information required under Item 15, subsection (a)(2) is set forth in a supplement filed as part of this report beginning on page 47.
- (a)(3) Exhibits:
 - (3)(a)(1) Charter (Exhibit 3(a) of the Registrant's Report on Form 10-K for the year ended December 30, 1990, is incorporated herein by reference).
 - (3)(a)(2) Amendment to Charter dated February 7, 1997 (Exhibit (3)(a)(2) of the Registrant's Report on Form 10-K for the year ended December 29, 1996 is incorporated herein by reference).
 - (3)(b) Restated Bylaws as currently in effect. (Exhibit 3(b) of the Registrant's Report on Form 10-K for the year ended January 3, 1999 is incorporated herein by reference).
 - (4)(a) Rights Agreement dated May 16, 1989, by and between Registrant and NationsBank (formerly Sovran Bank/Central South) including Form of Rights Certificate and Summary of Rights (Exhibit 3 to the Report on Form 8-K dated May 16, 1989, is incorporated herein by reference).
 - (4)(b) Amendments to Rights Agreement dated February 22, 1999, by and between the Registrant and SunTrust Bank. (Exhibit 4(c) of the Registrant's Report on Form 10-K for the year ended January 3, 1999 is incorporated herein by reference).
 - (4)(c) Amendment to Rights Agreement dated March 22, 1999, by and between the Registrant and SunTrust Bank. (Exhibit 4(d) of the Registrant's Report on Form 10-K for the year ended January 3, 1999 is incorporated herein by reference).
 - (4)(d) Stock Purchase and Standstill Agreement dated March 22, 1999, by and between the Registrant and Solidus, LLC. (Exhibit 4(e) of the Registrant's Report on Form 10-K for the year ended January 3, 1999 is incorporated herein by reference).
 - (4)(e) First Amendment to Stock Purchase and Standstill Agreement (Exhibit 4(a) of the Registrant's quarterly report on Form 10-Q for the quarter ended September 28, 2003, is incorporated herein by reference).
- (10)(a) Employee Stock Ownership Trust Agreement dated June 25, 1992 between Registrant and Third National Bank in Nashville. (Exhibit 2 to

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the Registrant's Report on Form 8-K dated June 25, 1992, is incorporated herein by reference).

- (10)(b)* Employee Stock Ownership Plan, as amended and restated, effective January 1, 1997 and executed February 25, 2002 (Exhibit (10)(u) of the Registrant's Report on Form 10-K for the year ended December 30, 2001 is incorporated herein by reference).

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- (10)(c) Pledge and Security Agreement dated June 25, 1992, by and between Registrant and Third National Bank in Nashville as the Trustee for the Volunteer Capital Corporation Employee Stock Ownership Trust (Exhibit 5 to the Registrant's Report on Form 8-K dated June 25, 1992, is incorporated herein by reference).
- (10)(d) Amended and Restated Secured Promissory Note dated November 30, 2000 from the J. Alexander's Corporation Employee Stock Ownership Trust to Registrant (incorporated by reference to Exhibit (10)(u) of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2000).
- (10)(e) Loan Agreement dated October 29, 2002 by and between GE Capital Franchise Finance Corporation and JAX Real Estate, LLC (Exhibit (10)(b) of the Registrant's quarterly report on Form 10-Q for the quarter ended September 29, 2002 is incorporated herein by reference).
- (10)(f) Master Lease dated October 29, 2002 by and between JAX Real Estate, LLC and J. Alexander's Restaurants, Inc. (Exhibit (10)(c) of the Registrant's quarterly report on Form 10-Q for the quarter ended September 29, 2002 is incorporated herein by reference).
- (10)(g) Unconditional Guaranty of Payment and Performance dated October 29, 2002 by and between J. Alexander's Corporation and JAX Real Estate, LLC (Exhibit (10)(d) of the Registrant's quarterly report on Form 10-Q for the quarter ended September 29, 2002 is incorporated herein by reference).
- (10)(h) Form of Promissory Note for each premises subject to the Loan Agreement dated October 29, 2002 by and between JAX Real Estate, LLC and GE Capital Franchise Finance Corporation (Exhibit (10)(e) of the Registrant's quarterly report on Form 10-Q for the quarter ended September 29, 2002 is incorporated herein by reference).
- (10)(i)* Written description of Salary Continuation Plan (description of Salary Continuation Plan included in the Registrant's Proxy Statement for Annual Meeting of Shareholders, May 15, 2001, is incorporated herein by reference).
- (10)(j)* Form of Severance Benefits Agreement between the Registrant and Messrs. Stout and Lewis (Exhibit (10)(j) of the Registrant's Report on Form 10-K for the year ended December 31, 1989, is incorporated herein by reference).
- (10)(k)* 1990 Stock Option Plan for Outside Directors (Exhibit A of the Registrant's Proxy Statement for Annual Meeting of Shareholders, May 8, 1990, is incorporated herein by reference).

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- (10)(l)* 1994 Employee Stock Incentive Plan (incorporated by reference to Exhibit 4(c) of Registration Statement No. 33-77476).
- (10)(m)* Amendment to 1994 Employee Stock Incentive Plan (Appendix A of the Registrant's Proxy Statement for Annual Meeting of Shareholders, May 20, 1997, is incorporated herein by reference).
- (10)(n)* Second Amendment to 1994 Employee Stock Incentive Plan (Appendix A of the Registrant's Proxy Statement on Schedule 14-A for 2000 Annual Meeting of Shareholders, May 16, 2000, (filed April 3, 2000) is incorporated herein by reference).

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| | |
|--------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (10)(o)* | Third Amendment to 1994 Employee Stock Incentive Plan (Appendix B of the Registrant's Proxy Statement on Schedule 14-A for 2001 Annual Meeting of Shareholders, May 15, 2001, (filed April 2, 2001) is incorporated herein by reference). |
| (10)(p)* | 1999 Loan Program (incorporated herein by reference to Exhibit A of Registration Statement on Form S-8, Registration No. 333-91431). |
| (10)(q) | \$5,000,000 Loan Agreement dated May 12, 2003 by and between J. Alexander's Corporation, J. Alexander's Restaurants, Inc. and Bank of America, N.A. (Exhibit (10)(a) of the Registrant's quarterly report on Form 10-Q for the quarter ended March 30, 2003 is incorporated herein by reference). |
| (10)(r) | Line of Credit Note dated May 12, 2003, by and between J. Alexander's Corporation, J. Alexander's Restaurants, Inc. and Bank of America, N.A. (Exhibit (10)(b) of the Registrant's quarterly report on Form 10-Q for the quarter ended March 30, 2003 is incorporated herein by reference). |
| (10)(s)* | First Amendment to Employee Stock Ownership Plan. |
| (10)(t)* | Second Amendment to Employee Stock Ownership Plan. |
| (10)(u) | First Amendment to Loan Agreement, dated January 20, 2004. |
| (10)(v) | Amended and Restated Line of Credit Note, dated January 20, 2004. |
| (21) | List of subsidiaries of Registrant. |
| (23) | Consent of Independent Auditors. |
| Exhibit 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of 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. |
| Exhibit 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Denotes executive compensation plan or arrangement.

(b) Reports on Form 8-K:

On October 27, 2003, the Company filed a Form 8-K under Item 12 related to its press release announcing third quarter earnings results.

- (c) Exhibits - The response to this portion of Item 15 is submitted as a separate section of this report.
- (d) Financial Statement Schedules - The response to this portion of Item 15 is submitted as a separate section of this report.

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 and 15(d) 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.

Date: 3/29/04

J. ALEXANDER S CORPORATION

By: /s/Lonnie J. Stout II

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

| <u>Name</u> | <u>Capacity</u> | <u>Date</u> |
|----------------------------------------------------|-----------------------------------------------------------------------------------------|--------------------|
| <u>/s/Lonnie J. Stout II</u> Lonnie J. Stout II | Chairman, President, Chief Executive Officer and Director (Principal Executive Officer) | 3/29/04 |
| <u>/s/R. Gregory Lewis</u> R. Gregory Lewis | Vice President and Chief Financial Officer (Principal Financial Officer) | 3/29/04 |
| <u>/s/Mark A. Parkey</u> Mark A. Parkey | Vice President and Controller (Principal Accounting Officer) | 3/29/04 |
| <u>/s/E. Townes Duncan</u> E. Townes Duncan | Director | 3/29/04 |
| <u>/s/Garland G. Fritts</u> Garland G. Fritts | Director | 3/29/04 |
| <u>/s/J. Bradbury Reed</u> J. Bradbury Reed | Director | 3/29/04 |

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ANNUAL REPORT ON FORM 10-K
ITEM 15(a)(2), (c) and (d)
FINANCIAL STATEMENT SCHEDULES
CERTAIN EXHIBITS
FISCAL YEAR ENDED DECEMBER 28, 2003
J. ALEXANDER S CORPORATION AND SUBSIDIARIES
NASHVILLE, TENNESSEE

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Table of Contents**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS****J. ALEXANDER S CORPORATION AND SUBSIDIARIES**

| COL. A | COL. B | COL. C | COL. D | COL. E | |
|------------------------------------------------------------------------------------|--------------------------------------|--------------------------------------------------|------------------------------------------------|-------------------------|--------------------------------|
| Description | Balance at Beginning of Period | Additions Charged to Costs and Expenses | Charged to Other Accounts Describe | Deductions- Describe | Balance at End of Period |
| Year ended December 28, 2003 Valuation allowance for deferred tax assets | \$4,931,000 | \$(1,590,000)(1) | \$ 0 | \$ 0 | \$3,341,000 |
| Year ended December 29, 2002: Valuation allowance for deferred tax assets | \$4,554,000 | \$ 377,000(2) | \$ 0 | \$ 0 | \$4,931,000 |
| Year ended December 30, 2001: Valuation allowance for deferred tax assets | \$3,919,000 | \$ 635,000 | \$ 0 | \$ 0 | \$4,554,000 |

(1) Includes a \$1,475,000 reduction in the valuation allowance reflecting the Company's belief that the future recognition of this amount of deferred tax assets is more likely than not.

(2) Includes a \$1,200,000 reduction in the valuation allowance reflecting the Company's belief that the future recognition of this amount of deferred tax assets is more likely than not.

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J. ALEXANDER S CORPORATION

EXHIBIT INDEX

| Reference Number per Item 601 of Regulation S-K | Description |
|----------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| (10)(s) | First Amendment to Employee Stock Ownership Plan. |
| (10)(t) | Second Amendment to Employee Stock Ownership Plan. |
| (10)(u) | First Amendment to Loan Agreement, dated January 20, 2004. |
| (10)(v) | Amended and Restated Line of Credit Note, dated January 20, 2004. |
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| Exhibit 32.2 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |