ALEXANDERS J CORP
Form 10-K
April 02, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

þ Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934.

For the fiscal year ended January 1, 2012.

OR

o Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from to .

Commission file number 1-8766

J. ALEXANDER'S CORPORATION
(Exact name of Registrant as specified in its charter)

Tennessee	62-0854056
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification 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, with associated Series A junior preferred stock purchase rights.	The NASDAQ Stock Market LLC

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the

Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§209.405 of this chapter) 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. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one): Large accelerated filer o Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller Reporting Company þ

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the last sales price on The NASDAQ Stock Market LLC ("NASDAQ Stock Market") of such stock as of July 1, 2011, the last business day of the Company's most recently completed second fiscal quarter, was $35,360,536, assuming solely for this purpose that (i) all shares held by officers of the Company are shares owned by "affiliates", (ii) all shares beneficially held by members of the Company's Board of Directors are shares owned by "affiliates," a status which each of the directors individually disclaims and (iii) all shares held by the Trustee of the J. Alexander's Corporation Employee Stock Ownership Plan are shares owned by an "affiliate".

The number of shares of the Company's Common Stock, $.05 par value, outstanding at March 30, 2012, was 5,994,453.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement for its 2012 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" or "J. Alexander's") was organized in 1971 and, as of January 1, 2012, operated as a proprietary concept 33 J. Alexander's full-service, casual dining restaurants located in Alabama, Arizona, Colorado, Florida, Georgia, Illinois, Kansas, Kentucky, Louisiana, Michigan, Ohio, Tennessee and Texas. J. Alexander's is a traditional restaurant with an American menu featuring 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, attractive ambiance 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 $9.00 to $33.00. The Company estimates that the average check per customer for fiscal 2011, including alcoholic beverages, was $26.87. J. Alexander's net sales during fiscal 2011 were $157,175,000, of which alcoholic beverage sales accounted for 17.0%.

The Company opened its first J. Alexander's restaurant in Nashville, Tennessee in 1991. The number of J. Alexander's restaurants opened by year is set forth in the following table:

Year	Restaurants Opened
1991	1
1992	2
1994	2
1995	4
1996	5
1997	4
1998	2
1999	1
2000	1
2001	2
2003	3
2005	1
2007	2
2008	3

Menu. Emphasis on quality is present throughout the entire J. Alexander's menu, which is designed to appeal to a wide variety of tastes. The menu 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; fresh steaks, chicken and seafood are grilled

over genuine hardwood; and all steaks are U.S.D.A. midwestern, corn-fed choice beef or higher, with a targeted aging of 24 to 41 days.

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 three to five fully-trained concept coaches and one or two kitchen coaches. Many of the coaches have previous experience in full-service restaurants and all complete an intensive J. Alexander’s development program, generally lasting for 19 weeks, involving all aspects of restaurant operations.

Each J. Alexander's restaurant employs approximately 30 to 50 service personnel, 20 to 25 kitchen employees, eight to ten hosts or hostesses and six to eight pubkeeps. The Company places significant emphasis on its initial training program. Management believes J. Alexander's restaurants have a low table to server ratio compared to many other casual dining restaurants, which allows its servers to provide better, more attentive service. The Company is committed to employee empowerment, and each member of the service staff is authorized to provide complimentary food in the event that a guest has an unsatisfactory dining experience or the food quality is not up to the Company's standards. Further, all members of the service staff are trained to know the Company's product specifications and to alert management of any potential problems.

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

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

Restaurant Design and Site Selection. The J. Alexander's restaurants are generally free-standing structures that typically contain approximately 7,000 to 8,000 square feet with seating for an average of approximately 220 guests. 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. Several of the Company's newer restaurants feature a patio complemented by an exposed fire pit, designed to enhance the guests' overall dining experience. The Company's restaurants opened from 2001 through 2003 in Boca Raton, Florida, Atlanta, Georgia and Northbrook, Illinois utilize a Wrightian architectural style featuring a high central-barreled roof and exposed structural steel system over an open, symmetrical floor plan. Angled window wall projections from the dining room provide a focus into the interior and create an anchor for the building. A garden seating area for waiting is provided by the patio and open trellis adjacent to the entrance, integrating the building into the adjacent landscape.

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

Departures from the more typical building designs have also been made as necessary to accommodate unique situations. For example, the Company's restaurant in Nashville, Tennessee, which opened in 2005 required the complete renovation of an older building to incorporate the development of 8,100 square feet of contemporary restaurant space along a busy thoroughfare just outside downtown Nashville, with a special emphasis on providing views both into and out of the dining area. The Company's restaurant in Chicago, Illinois is located in a developing upscale urban shopping district and prominently occupies over 9,000 square feet of a restored warehouse building. The J. Alexander's restaurant located in Troy, Michigan is located inside the prestigious Somerset Collection Mall and features a very upscale, contemporary design developed specifically for that location.

Management does not plan to open any new restaurants in 2012 and remains cautious about future development. Since no restaurants have been opened by the Company in several years, management does not have a precise estimate of future development costs for any new restaurants. While costs of developing future restaurants could vary considerably based on location and other factors, the Company plans to target total development costs of less than $4,000,000, before any landlord tenant improvement allowances, for site preparation and for constructing and equipping a new, free-standing J. Alexander's restaurant at a leased location. The Company is evaluating a number of opportunities that would include tenant improvement allowances from landlords which would significantly decrease the cash investment required for new restaurants.

The Company intends to resume new restaurant development in the future. The timing and number of restaurant openings will depend, however, upon a number of factors including the state of the U.S. economy, the operating and financial condition of the Company, the selection and availability of suitable sites, and the Company's ability to finance new restaurant development on a basis satisfactory to the Company. The Company has no 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 generally results in quality restaurant locations.

Information Systems. The Company utilizes a Windows-based accounting software package and a network that enables electronic communication throughout the Company. In addition, all of the Company's restaurants utilize touch screen point-of-sale and electronic gift card systems, and also employ a theoretical food costing program. The Company utilizes its management information systems to develop pricing strategies, identify food cost issues, monitor new product acceptance and evaluate restaurant-level productivity. The Company expects to continue to develop its management information systems to assist management in analyzing business issues and to improve efficiency.

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. The Company believes that its commitment to outstanding professional service, high-quality food, and an attractive environment with an upscale, high-energy ambiance distinguishes J. Alexander's from other casual dining competitors.

PERSONNEL

As of January 1, 2012, the Company employed approximately 2,720 persons, including 37 on the corporate staff. 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 numerous 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, unemployment and other taxes, required health insurance and other benefits, and legislation requiring restaurants to provide specific nutritional information on their menus. Restaurant operating costs may also be affected by federal government actions related to energy policies, particularly those affecting the price of petroleum products and development of alternative fuel sources such as ethanol. In addition, difficulties or failures in obtaining any required governmental licenses or approvals could delay or prevent the opening of a new restaurant.

Alcoholic beverage control regulations require each of the Company's J. Alexander's restaurants to apply for and obtain from state and local authorities a license or permit to sell alcoholic beverages 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 alcoholic beverage 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 13 states where J. Alexander's operates, 11 have dram-shop statutes or recognize a cause of action for damages relating to sales of alcoholic beverages to obviously intoxicated persons and/or minors. The Company carries liquor liability coverage as part of its comprehensive general liability insurance in amounts which the Company believes are appropriate for its size and scope of operations.

The Americans with Disabilities Act ("ADA") prohibits discrimination on the basis of disability in public accommodations and employment. The ADA became effective as to public accommodations and employment in 1992. Construction and remodeling projects completed by the Company since January 1992 have taken into account the requirements of the ADA. During the latter part of 2011, the Company began a review of all existing facilities to ensure they are in full compliance with the ADA.

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, 59	Chief Financial Officer since July 1986; Vice-President of Finance and Secretary since August 1984.
J. Michael Moore, 52	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, 49	Vice-President since May 1999; Controller since May 1997; Director of Finance from January 1993 to May 1997.
Lonnie J. Stout II, 65	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.

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, economic conditions, anticipated capital expenditures, financing arrangements and other similar matters, which reflect management's best judgment based on factors currently known. Generally, the words "believe", "expect", "intend", "estimate", "anticipate", "project", "may "should", and similar expressions identify forward-looking statements. 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.

Item 1A. 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 significantly and adversely affect the Company and cause actual results to differ materially from those projected in forward looking statements made by, or on behalf of, the Company. You should consider carefully the risks and uncertainties described below, and all information contained in this Annual Report, in evaluating the Company and its business.

Changes in food costs and the Company's response to them could negatively impact the Company's net sales and results of operations. The Company's profitability is dependent in part on its ability to purchase food commodities which meet its specifications and to anticipate and react to changes in food costs and product availability. Ingredients are purchased from suppliers on terms and conditions that management believes are generally consistent with those available to similarly situated restaurant companies. Although alternative distribution sources are believed to be available for most products, increases in food prices, failure to perform by suppliers or distributors or limited availability of products at reasonable prices could cause the Company's food costs to fluctuate and/or cause the Company to make adjustments to its menu offerings.

Prices of many food commodities, and particularly beef, have increased significantly over the past year and management believes that food commodity prices in general will continue to be subject to inflationary pressure in 2012 compared to 2011. Beef purchases typically represent 25% to 30% of the Company's cost of sales. These purchases are made at weekly market prices which are expected to increase, possibly significantly, in 2012 compared to 2011, exposing the Company to the effect of variable market conditions. Management expects that it may need to consider increasing menu prices or making other menu revisions in order to offset some portion of the impact of cost increases. However, there can be no assurance that any such changes will offset the full effect of these or other cost increases or that they will not negatively affect guest counts or profitability.

Additional factors beyond the Company's control, including adverse weather and market conditions, disease and governmental food safety regulation and enforcement, may also affect food costs and product availability. The Company may not be able to anticipate and react to changing food costs or product availability issues through its purchasing practices and menu price or menu offering adjustments in the future, and failure to do so could negatively impact the Company's net sales and results of operations.

Economic conditions may continue to affect consumer spending and the Company's business and operating results. The poor economic conditions that began in 2007 affected the Company's business significantly over the last four years. Although the U.S. economy and the Company's sales results have generally shown improvement since the end of the recent recession, management believes the U.S. economy, which is affected by numerous national and global factors, remains weak in several respects and that its future performance remains uncertain. A renewed downturn resulting in a decline in consumer confidence and further weakness in consumer spending, as well as the impact of higher gasoline prices which could decrease consumer discretionary income that would otherwise have been available for other purposes, could have an adverse impact on the Company's revenues and results of operations, and could potentially result in the Company recording additional asset impairment charges and/or restaurant closures and charges associated therewith in the future. Additionally, management believes there is a risk that if weak economic conditions persist for an extended period of time or if conditions worsen, consumers might make long-lasting changes to their discretionary spending behavior, including dining out less frequently on a more permanent basis.

The Company faces challenges in opening new restaurants. The success of new restaurants opened by the Company may be affected by many factors including the economic environment, competitive conditions, consumer tastes and discretionary spending patterns, and the Company's ability to generate market awareness and acceptance of J. Alexander's. As a result, sales generated by new restaurants may be lower than those for restaurants operated in other

areas and costs incurred in their opening and operation may be greater. It has been the Company's experience that new restaurants generate operating losses while they build sales levels to maturity. In addition, the Company's newer restaurants opened in 2007 and 2008 are requiring longer periods than the Company typically expects to build sales and some have incurred significant operating losses. Management believes this is due primarily to the effect of weak economic conditions over the past four years. A significant asset impairment charge was taken for one of these restaurants in 2009. If significant operating losses continue to occur in certain of the remaining newer restaurants, additional impairment charges could be required. The Company's continued long-term growth depends in part on its ability to open new J. Alexander's restaurants and to operate them profitably, which will depend on a number of factors, including the selection and availability of suitable locations, the hiring and training of sufficiently skilled management and other personnel and other factors, some of which are beyond the control of the Company. The Company may open restaurants in markets where it has little or no meaningful operating experience and in which potential customers may not be familiar with its restaurants. At January 1, 2012, the Company operated 33 J. Alexander's restaurants. Management does not currently plan to open any new restaurants in 2012 and remains cautious about future development. Because of the Company's relatively small restaurant base, unsuccessful restaurants could have a more adverse effect in relation to the Company's consolidated results of operations than would be the case in a restaurant company with a greater number of restaurants.

Expanding the Company’s restaurant base by opening new restaurants in existing markets could reduce the business of its existing restaurants. The Company may open restaurants in markets in which it already has existing restaurants. The Company may be unable to attract enough guests to the new restaurants for them to operate at a profit. Even if enough guests are attracted to the new restaurants for them to operate at a profit, those guests may be former guests of one of the Company’s existing restaurants in that market and the opening of new restaurants in the existing market could reduce the net sales of its existing restaurants in that market.

Nutrition and health concerns could have an adverse effect on the Company. Nutrition and health concerns are receiving increased attention from the media and government as well as from the health and academic communities. Food served by restaurants has sometimes been suggested as the cause of obesity and related health disorders. In response to these concerns, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010 (collectively, the “Health Reform Law”) will require restaurants with 20 or more locations operating under the same trade name to publish calorie counts and other information on their menus and to make more detailed nutritional information available to its guests upon request. Final rules on menu labeling are scheduled to be published by June 30, 2012; however, numerous lawsuits have challenged the constitutionality of the Health Reform Law. The U.S. Supreme Court is expected to decide the constitutionality of the Health Reform Law in 2012. Based on the outcome of the Supreme Court’s review, the Health Reform Law, or individual components of it, may be upheld, invalidated or modified. The Company is presently unable to predict the impact the Health Reform Law may have on its business.

Certain restaurant foods have also been argued to be unsafe because of possible allergic reactions to them which may be experienced by guests, or because of alleged high toxin levels. Some restaurant companies have been the target of consumer lawsuits, including class action suits, claiming that the restaurants were liable for health problems experienced by their guests. Continued focus on these concerns by activist groups could result in a perception by consumers that food served in restaurants is unhealthy, or unsafe, and is the cause of a significant health crisis. Adverse publicity, the cost of any litigation against the Company, and the cost of compliance with new regulations related to food nutritional and safety concerns could have an adverse effect on the Company’s net sales and operating costs.

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 preparation and sale of food and alcoholic beverages, and sanitation, fire and building codes. Alcoholic beverage control regulations govern various aspects of the Company’s daily operations. Generally, each restaurant’s license to serve alcoholic beverages must be renewed annually and may be suspended or revoked at any time for cause, including violation by the Company or its directors, officers or employees of any laws and regulations relating to the minimum drinking age, over serving or use of alcohol, advertising, wholesale purchasing, and inventory control. Termination of the liquor license for any J. Alexander’s restaurant would adversely affect net sales for the Company.

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, and legislation requiring restaurants to provide specific nutritional information on their menus. 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 restaurants.

In addition, the Health Reform Law may significantly impact the Company’s health care benefits costs. Employers with more than fifty full-time employees that fail to offer affordable health coverage will be subject to financial penalties that are calculated per full-time employee beginning in 2014. Based on the outcome of U.S. Supreme Court’s

review of the Health Reform Law, the Health Reform Law or individual components of it, may be upheld, invalidated or modified. The outcome of this Supreme Court review and the future impact of the Health Reform Law are unclear. Any penalties incurred or significant increases in operating costs necessary to comply with the health care benefit requirements of the Health Reform Law could adversely impact the Company’s operating results.

The Company depends upon the service of key executives, and its business and future growth could be materially harmed if the Company is unable to retain, or effectively respond to a loss of, key personnel. The Company's success is materially dependent upon the contributions of Lonnie J. Stout II, the Company's Chairman, President and Chief Executive Officer, and certain other senior executives of the Company because they are instrumental in setting the Company's strategic direction, day-to-day operations, and recruiting and training key personnel. The loss of the services of Mr. Stout or other senior executives could adversely affect the Company's business until a suitable replacement of equal experience and capabilities could be identified, and any replacement may not be as effective.

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. In addition, the Company places a high priority on maintaining the competitive positioning of its restaurants including the image and condition of its restaurant facilities, which could result in significant capital expenditures in the future for remodeling and updating. The Company's inability to compete successfully with other restaurants in new or existing markets could prevent it from increasing or sustaining revenues and profitability and could have a material adverse effect on its business, results of operations and financial condition.

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

The Company may experience fluctuations in quarterly results. The Company's quarterly results of operations are affected by sales levels, the timing of the opening of new J. Alexander's restaurants, and fluctuations in the cost of food, labor, employee benefits, utilities and similar costs over which the Company has limited or no control. The Company's operating results may also be affected by inflation or other non-operating items which the Company is unable to predict or control. 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.

Hurricanes and other weather related disturbances could negatively affect the Company's net sales and results of operations. Certain of the Company's restaurants are located in regions of the country which are commonly affected by hurricanes. Restaurant closures resulting from evacuations, damage or power or water outages caused by hurricanes could adversely affect the Company's net sales and profitability.

Significant capital is required to develop new restaurants. The Company's capital investment in its restaurants is relatively high compared to some other casual dining companies. Failure of a new restaurant to generate satisfactory net sales and profits in relation to its investment could result in failure of the Company to achieve the desired financial return on the restaurant. Also, the Company may require capital beyond the cash flow provided from operations in order to expand, which may be difficult to obtain in the current and foreseeable economic environment. As a result, the Company's future growth could be limited by the availability of additional financing sources or future growth could involve additional borrowing which would further increase the Company's long-term debt and interest expense.

Failure to maintain the Company’s debt covenants could have a material adverse effect on its liquidity and financial condition. The Company is the borrower under a loan agreement that provides for a $5,000,000 bank line of credit facility as of January 1, 2012. The line of credit facility is scheduled to expire May 22, 2012. The Company also has a mortgage loan outstanding in the amount of $18,332,000 as of January 1, 2012, which is payable in equal monthly installments of principal and interest of approximately $212,000 through November 2022 and which is secured by certain real estate owned by a wholly-owned subsidiary of the Company. The Company was in compliance with all financial covenants required by the debt agreements at January 1, 2012. Should the Company fail to comply with these covenants, management would likely request waivers of the covenants, attempt to renegotiate them or seek other sources of financing. However, if these efforts were not successful, the unused portion of the Company’s bank line of credit would not be available for borrowing and amounts outstanding under the Company’s debt agreements could become immediately due and payable, and there could be a material adverse effect on the Company’s financial condition and operations.

Litigation, claims of third parties or governmental enforcement actions could have a material adverse effect on the Company's business. From time to time, the Company is the subject of complaints or litigation from guests alleging food-borne illness, injury or other food quality or operational concerns. The Company is also subject to complaints or allegations from current, former or prospective employees based on, among other things, wage or other discrimination, violation of various labor laws, harassment or wrongful termination. In recent years, a number of restaurant companies have been subject to employee or guest claims, including class actions, which resulted in the payment of substantial damages by the defendants. The Company's fiscal year 2011 results include expenses of approximately $900,000 related to the defense and settlement, which remains subject to court approval, of a lawsuit involving allegations of tip share pool violations. There can be no assurance that the Company will not incur substantial damages and expenses resulting from claims of this nature, including class actions, even if it is not at fault. From time to time, the Company may be involved in lawsuits with respect to infringement of, or challenges to, its registered trademarks.

Any significant lawsuit or claim may damage the reputation of the Company and may be expensive to defend and could divert resources which would otherwise be used to improve the performance of the Company. A lawsuit or claim could also result in an adverse decision against the Company that could have a material adverse effect on the Company's business, financial condition and results of operations. In addition, certain of the Company's tax returns and employment practices and policies are subject to audit by the Internal Revenue Service and various state tax authorities. Such audits could result in disputes regarding tax matters that could lead to litigation that would be costly to defend or could result in payment of additional taxes which could affect the Company's results of operations and financial condition.

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.

The Company's current insurance policies may not provide adequate levels of coverage against all claims. The Company currently maintains insurance coverage that management believes is reasonable for businesses of its size and type. However, there are types of losses the Company may incur that cannot be insured against or that management believes are not commercially reasonable to insure. These losses, if they occur, could have a material and adverse effect on the Company's business and results of operations.

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. New pronouncements and evolving interpretations of pronouncements have occurred and may occur in the future. Changes to the existing rules or differing inte