

J. Alexander's Holdings, Inc.
Form 10-Q
August 10, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For quarterly period ended July 1, 2018

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: 1-37473

J. Alexander's Holdings, Inc.

(Exact name of registrant as specified in its charter)

| | |
|--|---|
| Tennessee (State or other jurisdiction of incorporation or organization) | 47-1608715 (I.R.S. Employer Identification No.) |
|--|---|

| | |
|---|---------------------|
| 3401 West End Avenue, Suite 260 Nashville, Tennessee (Address of principal executive offices) | 37203 (Zip Code) |
|---|---------------------|

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of August 9, 2018, 14,695,176 shares of the registrant's Common Stock, \$0.001 par value, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

J. Alexander's Holdings, Inc.

Condensed Consolidated Balance Sheets

(Unaudited in thousands, except share amounts)

| | July 1, 2018 | December 31, 2017 |
|---|-----------------|-------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$7,259 | \$10,711 |
| Accounts and notes receivable | 1,021 | 1,446 |
| Inventories | 2,611 | 2,804 |
| Prepaid expenses and other current assets | 3,931 | 3,769 |
| Total current assets | 14,822 | 18,730 |
| Other assets | 5,776 | 6,183 |
| Property and equipment, at cost, less accumulated depreciation and amortization of \$48,538 and \$43,484 as of July 1, 2018 and December 31, 2017, respectively | 107,033 | 103,615 |
| Goodwill | 15,737 | 15,737 |
| Tradename and other indefinite-lived assets | 25,631 | 25,202 |
| Deferred charges, less accumulated amortization of \$268 and \$247 as of July 1, 2018 and December 31, 2017, respectively | 167 | 184 |
| Total assets | \$169,166 | \$169,651 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$5,840 | \$6,587 |
| Accrued expenses and other current liabilities | 9,091 | 10,745 |
| Unearned revenue | 2,373 | 3,695 |
| Current portion of long-term debt | 9,000 | 9,000 |
| Total current liabilities | 26,304 | 30,027 |
| Long-term debt, net of portion classified as current and deferred loan costs | 8,322 | 10,781 |
| Deferred compensation obligations | 6,592 | 6,451 |
| Deferred income taxes | 1,193 | 2,075 |
| Other long-term liabilities | 6,779 | 6,456 |
| Total liabilities | 49,190 | 55,790 |
| Stockholders' Equity: | | |

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| | | |
|--|------------|------------|
| Common stock, par value \$0.001 per share: Authorized 30,000,000 shares; issued and outstanding 14,695,176 shares as of July 1, 2018 and December 31, 2017, respectively | 15 | 15 |
| Preferred stock, par value \$0.001 per share: Authorized 10,000,000 shares; no shares issued and outstanding as of July 1, 2018 or December 31, 2017 | - | - |
| Additional paid-in capital | 95,680 | 95,151 |
| Retained earnings | 17,227 | 13,495 |
| Total stockholders' equity attributable to J. Alexander's Holdings, Inc. | 112,922 | 108,661 |
| Non-controlling interests | 7,054 | 5,200 |
| Total stockholders' equity | 119,976 | 113,861 |
| Commitments and contingencies | | |
| Total liabilities and stockholders' equity | \$ 169,166 | \$ 169,651 |
| See accompanying Notes to Condensed Consolidated Financial Statements. | | |

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J. Alexander's Holdings, Inc.

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited in thousands, except per share amounts)

| | Quarter Ended | | Six Months Ended | |
|--|-----------------|-----------------|------------------|-----------------|
| | July 1, 2018 | July 2, 2017 | July 1, 2018 | July 2, 2017 |
| Net sales | \$60,420 | \$58,216 | \$122,329 | \$118,038 |
| Costs and expenses: | | | | |
| Cost of sales | 19,433 | 19,197 | 38,694 | 37,628 |
| Restaurant labor and related costs | 18,781 | 17,959 | 37,007 | 35,904 |
| Depreciation and amortization of restaurant property and equipment | 2,696 | 2,500 | 5,265 | 4,878 |
| Other operating expenses | 11,943 | 11,539 | 23,961 | 23,109 |
| Total restaurant operating expenses | 52,853 | 51,195 | 104,927 | 101,519 |
| Transaction and integration expenses | 7 | 460 | 933 | 460 |
| General and administrative expenses | 4,722 | 6,336 | 11,247 | 11,164 |
| Pre-opening expenses | 504 | 10 | 830 | 886 |
| Total operating expenses | 58,086 | 58,001 | 117,937 | 114,029 |
| Operating income | 2,334 | 215 | 4,392 | 4,009 |
| Other income (expense): | | | | |
| Interest expense | (186) | (224) | (360) | (398) |
| Other, net | 55 | 51 | 13 | 72 |
| Total other expense | (131) | (173) | (347) | (326) |
| Income from continuing operations before income taxes | 2,203 | 42 | 4,045 | 3,683 |
| Income tax benefit (expense) | 12 | 254 | (126) | (590) |
| Loss from discontinued operations, net | (110) | (110) | (221) | (223) |
| Net income | \$2,105 | \$186 | \$3,698 | \$2,870 |
| Basic earnings per share: | | | | |
| Income from continuing operations, net of tax | \$0.15 | \$0.02 | \$0.27 | \$0.21 |
| Loss from discontinued operations, net | (0.01) | (0.01) | (0.02) | (0.02) |
| Basic earnings per share | \$0.14 | \$0.01 | \$0.25 | \$0.20 |
| Diluted earnings per share: | | | | |
| Income from continuing operations, net of tax | \$0.15 | \$0.02 | \$0.26 | \$0.21 |
| Loss from discontinued operations, net | (0.01) | (0.01) | (0.01) | (0.02) |
| Diluted earnings per share | \$0.14 | \$0.01 | \$0.25 | \$0.19 |
| Weighted-average common shares outstanding: | | | | |
| Basic | 14,695 | 14,695 | 14,695 | 14,695 |
| Diluted | 14,901 | 14,905 | 14,869 | 14,800 |
| Comprehensive income | \$2,105 | \$186 | \$3,698 | \$2,870 |

See accompanying Notes to Condensed Consolidated Financial Statements.

Per share amounts may not sum due to rounding.

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J. Alexander's Holdings, Inc.

Condensed Consolidated Statement of Stockholders' Equity

(Unaudited in thousands, except share amounts)

| | Outstanding shares | Common stock | Additional paid-in capital | Retained earnings | Non-controlling interests | Total |
|--|-----------------------|-----------------|----------------------------------|----------------------|------------------------------|------------|
| Balances at December 31, 2017 | 14,695,176 | \$ 15 | \$ 95,151 | \$ 13,495 | \$ 5,200 | \$ 113,861 |
| Cumulative effect of change in accounting policy (Note 9) | - | - | - | 34 | - | 34 |
| Share-based compensation | - | - | 529 | - | 1,854 | 2,383 |
| Net income | - | - | - | 3,698 | - | 3,698 |
| Balances at July 1, 2018 | 14,695,176 | \$ 15 | \$ 95,680 | \$ 17,227 | \$ 7,054 | \$ 119,976 |

See accompanying Notes to Condensed Consolidated Financial Statements.

J. Alexander's Holdings, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited in thousands)

| | Six Months Ended | |
|---|------------------|-----------------|
| | July 1, 2018 | July 2, 2017 |
| Cash flows from operating activities: | | |
| Net income | \$3,698 | \$2,870 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of property and equipment | 5,411 | 5,021 |
| Equity-based compensation expense | 2,383 | 2,308 |
| Other, net | (282) | 52 |
| Changes in assets and liabilities: | | |
| Accounts and notes receivable | 425 | (1,089) |
| Prepaid expenses and other current assets | (162) | (88) |
| Accounts payable | (653) | (861) |
| Accrued expenses and other current liabilities | (1,654) | (338) |
| Other assets and liabilities, net | (587) | 229 |
| Net cash provided by operating activities | 8,579 | 8,104 |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (9,019) | (6,597) |
| Other investing activities | (512) | (273) |
| Net cash used in investing activities | (9,531) | (6,870) |
| Cash flows from financing activities: | | |
| Payments on long-term debt and obligations under capital leases | (2,500) | (1,111) |
| Other financing activities | - | (2) |
| Net cash used in financing activities | (2,500) | (1,113) |
| (Decrease) increase in cash and cash equivalents | (3,452) | 121 |
| Cash and cash equivalents at beginning of period | 10,711 | 6,632 |
| Cash and cash equivalents at end of period | \$7,259 | \$6,753 |
| Supplemental disclosures: | | |
| Property and equipment obligations accrued at beginning of period | \$1,854 | \$2,587 |
| Property and equipment obligations accrued at end of period | 1,760 | 969 |
| Cash paid for interest | 402 | 395 |
| Cash paid for income taxes | 234 | 1,838 |

See accompanying Notes to Condensed Consolidated Financial Statements.

J. Alexander's Holdings, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited, dollars in thousands except per share data)

Note 1 – Organization and Business

Separation from FNF and Equity Structure

On August 15, 2014, J. Alexander's Holdings, Inc. (the "Company") was incorporated in the state of Tennessee as a wholly-owned subsidiary of Fidelity National Financial, Inc. ("FNF"). On September 16, 2015, the Company entered into a separation and distribution agreement with FNF, pursuant to which FNF agreed to distribute one hundred percent of its shares of the Company's common stock, par value \$0.001, on a pro rata basis, to the holders of then Fidelity National Financial Ventures, LLC ("FNFV") Group common stock, FNF's then tracking stock traded on The New York Stock Exchange ("The NYSE"). Holders of then FNFV Group common stock received, as a distribution from FNF, approximately 0.17271 shares of the Company's common stock for every one share of then FNFV Group common stock held at the close of business on September 22, 2015, the record date for the distribution (the "Distribution"). FNFV is now conducting business independently as Cannae Holdings, Inc., ("Cannae") subsequent to its split-off from FNF effective November 20, 2017. Concurrent with the Distribution, certain reorganization changes were made, resulting in the Company owning all of the outstanding Class A Units and becoming the sole managing member of J. Alexander's Holdings, LLC, the parent company of all its operating subsidiaries. Also concurrent with the Distribution, the Second Amended and Restated LLC Agreement of J. Alexander's Holdings, LLC was entered into, resulting in a total number of Class A Units outstanding of 15,000,235. Additionally, a total of 833,346 Class B Units granted to certain members of management effective on January 1, 2015 were also outstanding at the date of Distribution. The Distribution was completed on September 28, 2015.

On September 28, 2015, immediately prior to the Distribution, J. Alexander's Holdings, LLC entered into a Management Consulting Agreement with Black Knight Advisory Services, LLC ("Black Knight"), pursuant to which Black Knight provides corporate and strategic advisory services to J. Alexander's Holdings, LLC. In accordance with the Management Consulting Agreement, J. Alexander's Holdings, LLC granted 1,500,024 Class B Units to Black Knight as a profits interest grant on October 6, 2015.

As a result of the Distribution, the Company became an independent public company with its common stock listed under the symbol "JAX" on The NYSE, effective September 29, 2015. As of July 1, 2018, a total of 14,695,176 shares of the Company's common stock, par value \$0.001, were outstanding.

On October 29, 2015, the Company's Board of Directors (the "Board") authorized a share repurchase program for up to 1,500,000 shares of the Company's outstanding common stock over the three years ending October 29, 2018. Share repurchases under the program have been made and are expected to be made solely from cash on hand and available operating cash flow. Repurchases will be made in accordance with applicable securities laws and may be made from time to time in the open market. The timing, prices and amount of repurchases will depend upon prevailing market prices, general economic and market conditions and other considerations. The repurchase program does not obligate the Company to acquire any particular amount of stock. As of July 1, 2018, 305,059 shares have been repurchased and retired under this program at an aggregate purchase price of \$3,203. There was no common stock repurchase activity during the first half of 2018.

Business of J. Alexander's

The Company, through J. Alexander's Holdings, LLC and its subsidiaries, owns and operates full service, upscale restaurants including J. Alexander's, Redlands Grill, Lyndhurst Grill, Overland Park Grill and Stoney River Steakhouse and Grill ("Stoney River"). At July 1, 2018 and December 31, 2017, the Company operated 45 and 44 restaurants in 16 and 15 states, respectively. The Company's restaurants are concentrated primarily in the East, Southeast, and Midwest regions of the United States. The Company does not have any restaurants operating under franchise agreements.

Note 2 – Basis of Presentation

(a) Interim Financial Statements

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and rules of the United States Securities and Exchange Commission ("SEC"). Accordingly, they do not include all of the information and footnote disclosures required by GAAP for complete financial statements. In the opinion of management, all

adjustments (including normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the quarter and six-month period ended July 1, 2018 are not necessarily indicative of the results that may be expected for the fiscal year ending December 30, 2018. For further information, refer to the Consolidated Financial Statements and footnotes thereto for the fiscal year ended December 31, 2017 included in the Annual Report on Form 10-K of the Company filed with the SEC on March 15, 2018.

Total comprehensive income is comprised solely of net income for all periods presented.

(b) Principles of Consolidation

The unaudited Condensed Consolidated Financial Statements include the accounts of the Company as well as the accounts of its majority-owned subsidiaries. All intercompany profits, transactions, and balances between the Company and its subsidiaries have been eliminated. It is the Company's policy to reclassify prior year amounts to conform to the current year's presentation for comparative purposes, if such a reclassification is warranted.

As discussed in Note 1, as a result of the Distribution, certain reorganization changes were made resulting in the Company owning all of the outstanding Class A Units and becoming the sole managing member of J. Alexander's Holdings, LLC. The reorganization transactions were accounted for as a non-substantive transaction in a manner similar to a transaction between entities under common control pursuant to Accounting Standards Codification ("ASC") 805-50, Transactions between Entities under Common Control, and as such, the Company recognized the assets and liabilities transferred at their carrying amounts on the date of transfer. The Company is a holding company with no direct operations and that holds as its sole asset an equity interest in J. Alexander's Holdings, LLC and, as a result, relies on J. Alexander's Holdings, LLC to provide it with funds necessary to meet its financial obligations.

(c) Fiscal Year

The Company's fiscal year ends on the Sunday closest to December 31, and each quarter typically consists of 13 weeks. The quarters and six-month periods ended July 1, 2018 and July 2, 2017 each included 13 and 26 weeks of operations, respectively. Fiscal years 2018 and 2017 each include 52 weeks of operations.

(d) Discontinued Operations and Restaurant Closures

During 2013, three J. Alexander's restaurants were closed, and two of these restaurants were considered to be discontinued operations. Additionally, the Company closed one J. Alexander's location during the first quarter of 2017 as the restaurant's lease had reached the end of its term. Since the closure of this restaurant did not represent a strategic shift that would have a major effect on the Company's operations and financial results, its results of operations and expenses associated with its closure were not included in discontinued operations. Income from continuing operations before income taxes associated with this location was \$35 for the six-month period ended July 2, 2017. The \$110 loss from discontinued operations included in the quarters ended July 1, 2018 and July 2, 2017, respectively, and losses for the six-month periods ended July 1, 2018 and July 2, 2017 of \$221 and \$223, respectively, consist solely of exit and disposal costs which are primarily related to a continuing obligation under a lease agreement for one of these closed locations.

(e) Transaction Expenses

The Company incurred transaction expenses associated primarily with the proposed acquisition of the Ninety Nine Restaurant and Pub concept (&