

Dear Fellow Shareholders:

I am pleased to report much improved results to you this year. We still have a great deal of work to do to reach the expectations and goals we have set for the Company. However, 2010 sure looks a lot better than 2009 and 2008.

We posted net income for the year of \$2,796,000 compared to a net loss of \$15,338,000 in 2009; our per share book value increased from \$7.61 per share to \$8.13 per share.

However, I do not believe comparing the net income achieved in 2010 to the loss posted in 2009 is the best way to measure the improvement in our operating performance. I view our actual performance improvement as much less than that. I also believe the improvement in our pre-tax results overstates the improvement in our operating performance. Let me break down our performance improvement for you and I will come to a number that I believe is representative of how much the business improved.

In the accompanying historical results table, you will notice two bolded numbers: restaurant operating income and operating income before pre-opening expense and asset impairment charges. We refer to the latter as our “running the business profit”. Both of these metrics represent what accountants refer to as non-GAAP financial measures. However, in my view these are the best measures for evaluating the improvement in our business performance last year as further discussed below.

In both 2010 and 2009, we had significant non-recurring income tax adjustments which affected our net income or loss. We recorded an income tax benefit of \$2,352,000 in 2010 primarily as a result of making adjustments to the depreciable lives of some of our assets for tax purposes. This certainly

was a benefit to us and resulted in a cash refund of approximately \$2,600,000. However, it really had little to do with 2010’s operating performance. We also had a significant tax adjustment of \$7,405,000 in 2009 to reserve substantially all of our deferred tax assets. (Most of these “assets” are still available to us, however, as discussed in Note G to the Consolidated Financial Statements.)

If we look at the income or loss before income taxes, we posted a loss of approximately \$8.2 million in 2009 compared to income of \$444,000 in 2010, an \$8.7 million improvement. However, we must dig a little deeper to reconcile this to what I believe was our true improvement because we had significant non-recurring asset impairment charges of \$3,889,000 which negatively affected our pre-tax results for 2009.

When we add back the asset impairment charges and other non-operating expense items to the pre-tax loss for 2009, we reconcile back to our “running the business profit” in the table below. Comparing “running the business profit” in 2010 to 2009, you will note we improved by about \$5 million. I would normally consider this our improvement in running the business for the year. However because we incurred some very high litigation-related costs in 2009, which we do not expect to incur in the future, I think restaurant operating income is probably the best way to measure our improvement in the business for last year. Our restaurant operating income improved about \$4 million in 2010 as compared to 2009.

If we use net income as a metric of performance improvement, we improved \$18 million in 2010 compared to 2009. However, our real improvement in the business in my view was about \$4 million. I

am sorry to spend so much time reconciling these numbers, but it would be extremely misleading to look at the financial statements and think we posted an \$18 million improvement in our core business operations. We are pleased with the \$4 million improvement in restaurant operating income, but a quick look at the table tells you that our restaurant operating income of \$11.5 million for 2010 still needs to improve considerably to reach the level of over \$17 million we posted in 2007. We are keeping our eye on that mark.

As I have mentioned in the past, same store sales performance is another key indicator we use for evaluating our results. Fiscal year 2008 was the first year in the history of J. Alexander’s that we posted a decline in average weekly same store sales per restaurant. As I mentioned last year, we posted a decline of 5.7% in 2008. We followed that up with another alarming decline of 4.3% in 2009. Adding these two years together represented a very troubling issue, a 10.0% decline in same store sales.

We had positive same store sales performance for 2010, posting a 5.5% increase for the year. We still have some work to do to get back to our average unit volumes before the “Great Recession” hit, but we were pleased with the progress we made last year. We were extremely pleased with our same store sales performance in the fourth quarter when we posted a 7.3% increase. We also posted positive same store sales in the fourth quarter of 2009, and we now have had five consecutive quarters of improvement in same store sales building up to the 7.3% increase in the fourth quarter of last year. Favorable trends have continued during 2011, and we estimate that our same store sales will be up by about 5.5% for the first quarter of this year.

J. ALEXANDER’S CORPORATION HISTORICAL RESULTS

	Fiscal Years					2010 vs 2009 Increase (Decrease)
	2006	2007	2008	2009	2010	
Net sales	\$137,658	\$141,268	\$139,755	\$144,194	\$149,018	\$ 4,824
Restaurant operating expenses	120,360	123,878	127,454	136,576	137,527	951
Restaurant operating income	17,298	17,390	12,301	7,618	11,491	3,873
General and administrative expenses	9,641	9,625	10,061	10,069	9,229	(840)
Operating income (loss) before pre-opening expense and asset impairment charges (“running the business profit”)	7,657	7,765	2,240	(2,451)	2,262	4,713
Pre-opening expense	—	939	1,626	—	—	—
Asset impairment charges	—	—	—	3,889	—	(3,889)
Operating income (loss)	7,657	6,826	614	(6,340)	2,262	8,602
Total other expense, net (principally interest)	1,472	1,132	1,526	1,896	1,818	(78)
Income (loss) before income taxes	6,185	5,694	(912)	(8,236)	444	8,680
Income tax provision (benefit)	1,468	1,140	(1,017)	7,102	(2,352)	(9,454)
Net income (loss)	\$ 4,717	\$ 4,554	\$ 105	\$ (15,338)	\$ 2,796	\$ 18,134

Note: Fiscal year 2009 includes 53 weeks of operations compared to 52 weeks for all other years presented. Captions in bold above represent non-GAAP financial measures.

We have much work to do to build our average volumes back to our expectations, but we certainly made significant progress last year in doing so.

I would like to share a few comments with you about the sales performance of our restaurants by market.

All of my sales comments are in reference to average weekly sales per restaurant. Last year was a 52 week year, but 2009 was a 53 week year.

Our largest concentration of restaurants is in the state of Florida where we have seven locations. Florida has always been a strong performing market for us. However, the recession took its toll on us in Florida, especially south Florida. All of the Florida restaurants did post sales improvements last year, and we are very pleased with that result. However, one of them is not meeting our operations expectations and is struggling this year. We believe as the real estate market continues to recover and as tourism improves our Florida restaurants will continue to post good results for us. I will discuss our Plantation restaurant in detail a little later.

Our next highest concentration of restaurants is in Tennessee. We have five restaurants in Tennessee including three in the Metropolitan Nashville area. All five of the restaurants posted weekly average sales improvements compared to 2009. While unemployment in Tennessee remains relatively high, our economy is fairly diverse in the state and four of our restaurants are strategically located in strong trade areas. The Tennessee restaurants as a group were not impacted as much by the recession as some of our other markets. We were generally very pleased with sales performance in Tennessee.

We also have five restaurants in the state of Ohio. For management purposes, we usually include our Toledo restaurant with the Detroit market because it tends to behave like Michigan from a sales point of view. However, for the purpose of this discussion, I will leave it in Ohio. All of our Ohio restaurants posted sales improvements last year and we were pleased with the level of improvement. At the beginning of the recession, we made some menu format changes in four of our Ohio restaurants (with Cincinnati being the exception). We believe these changes were received very positively by our guests.

We have three restaurants in the Metropolitan Chicago area. Two of the three posted sales improvements last year and one was off slightly. Overall, the Chicago market is lagging behind our other markets in sales performance improvement. However, the market as a whole posted a net sales improvement for 2010. We expect continued improvements in 2011.

We also have three restaurants in Metropolitan Detroit. The Michigan economy has been one of

the worst in the nation. However, our restaurants are positioned very strongly from a strategic point of view. They access the highest income markets in Metropolitan Detroit. We have certainly been impacted by the recession in Michigan, but the recovery last year in our restaurants was very strong. All three restaurants posted improved sales and as a group, exceeded our expectations. These restaurants are very important to us because they have historically been three of our highest volume restaurants.

We have two restaurants in Texas. One had a modest sales improvement and one a small decline. We were impacted by construction and repairs to one of the restaurants, so we are expecting improved performance in our Texas market in 2011.

We also have two restaurants in the Metropolitan Atlanta area. Atlanta has always been a strong restaurant market, but our restaurants there, both of which are located on the north side, posted major performance declines during the recession. It was worse than expected. However, both of our restaurants posted weekly average sales improvements last year in excess of our company average. We were pleased with their progress.

We have six restaurants located in states where we only have one restaurant. Five of these six posted sales improvements for the year. One is still struggling to build sales momentum.

Overall, we were generally pleased with our sales performance by market and by restaurant. However, I always want to bat a thousand even though it is unlikely we ever will. Last year, we noted improvements in same store sales during the first and second quarters with momentum building during the third and fourth quarters and continuing into the first quarter of this year. We believe our same store sales performance in Quarter 3 and Quarter 4 of last year was among the best in the upscale restaurant business and as noted earlier our trends have remained favorable this year. We believe we made good decisions during the recession and did nothing (like discounting our products or reducing portion sizes, food quality or service) to harm our business "franchise".

The old adage that you can never be rich enough or thin enough holds true for same store sales performance. It can never be good enough. However, it is an important internal metric and one that we take very seriously. We evaluate our restaurant Head Coaches (general managers) on their individual restaurant's same store sales performance. We evaluate our Regional Operations Directors on it and the Board takes a hard look at your CEO on how we perform in this area. The bottom line, we did a good job, but we always want it to be better.

For a host of reasons, we do not discuss or disclose individual restaurant performance statistics.

However, from time to time, I believe it is helpful to discuss some aspects of one of our restaurants to provide additional insight into our business. We opened the Plantation, Florida restaurant in 1996. By our investment criteria at that time, it was a very expensive restaurant. Our original investment was about \$4 million (excluding capitalized interest and capitalized Development Department costs). We own the land at this location (virtually impossible to do now because of the very limited availability of sites which can be purchased in premier upscale retail markets). The restaurant is located in a solid market, but on a B to B+ site. We are on a good traffic artery, but around the corner from the main traffic artery. However, we are in a densely populated market with stable household incomes and a lot of retail generators in the area. Of course that means there are a lot of other restaurants in the area as well.

When we opened this restaurant in 1996, it was a very slow starter. Things did not get much better in 1997, its first full year of operations. It improved considerably in 1998 and we did about the same level of sales in 1999 as we did in 1998. We were still under \$4 million in sales, but at the restaurant level we were cash flowing about 15% of its original investment which is a minimum acceptable rate. However, we expect any restaurant we develop to cash flow at least 20% after a reasonable period of time. We did not cash flow 20% in Plantation until 2002. We had operated the restaurant at that time for about 6 1/2 years. Then, like a rocket launching and gaining momentum, it started to gain significant sales and cash flow momentum. When we talk about cash flow return, I should note that we do have continuing capital maintenance investments we must make in our restaurants. In the 15 years we have owned the Plantation restaurant, we have spent about \$1.4 million on capital maintenance. However, for the last five years, it has cash flowed in excess of \$1.4 million each year at the restaurant level. Last year it generated over \$1.8 million in restaurant level cash flow. We expect the restaurant to do a little over \$7 million in sales this year. Since we have opened it, it has cash flowed \$15.7 million at the restaurant level.¹

Plantation is a good example of our business goal for our restaurants. We open in a market to become an "institution". We want to be the kind of restaurant a guest can always depend on for superior service and outstanding food. We believe once we establish that reputation (it is difficult for me to forecast the time that takes) in an individual market the restaurant's potential for superior performance is significant. I would never open a restaurant projecting that it would generate a 50% cash flow on its original investment. However, we have a couple that have been able to achieve this, although none

of them achieved this in the first few years of operations. Most of our mature restaurants have posted satisfactory results over time.

Each of our restaurants has its own story. Some of them have started out of the gate much stronger than others. Some of them have lingered for a long time before they have been able to establish the institutional reputation we desire and go on a long sales run. At times, we have been victimized by our own failures. Excessive management turnover or having the wrong coaching team for a particular market has hindered our performance. One thing we do is constantly work on evaluating our restaurants until we think we have the right team, menu pricing and feature program in each location to be successful. We want to establish a great reputation in each market. However, all 33 of our restaurants are different and at times it is a bit like solving a puzzle to get the correct mix.

When we started J. Alexander's, Ohio was an extremely strong performing market for us. However, several things happened in Ohio that impacted our business. As our input costs increased in the 1990's, we raised our menu prices to maintain our margins without sacrificing quality. In markets like Dayton, Ohio, for instance, the guests simply would not pay the freight. The state of Ohio is also a very expensive state to do business in and we also found it necessary to adjust our menu prices for increased operating costs associated with state regulations. In the early part of this decade, some of our Ohio restaurants posted a major sales decline. However, we kept making adjustments to the way we ran the Ohio restaurants. We changed our menu format in some Ohio locations, but without changing our quality and service levels so that we protected our good reputation there. We put some lower priced items on the menus that still had good margins and made some other adjustments to our business. As I noted earlier, we are fairly pleased with Ohio's performance last year.

These are a few examples of some of the challenges we have faced and how we have handled them. I will not tell you that every restaurant we have will turn into a Plantation. However, it is an excellent example of what we can accomplish if we work hard every day on improving operations in our restaurants; this is the prize at the end of the race for us. We have the opportunity to build a high volume, high cash flow restaurant that should provide us with stable and predictable performance for a long period of time. Our goal is to make all of our restaurants into Plantations. Some of them are there or close to it and several are struggling and have a long, long way to go to achieve the kind of success we have had in Plantation. However, we must stay focused on our ultimate goal to be successful and that goal is superior execution every day.

We continue to work on enhancements to our feature program which is an important component of our business. In addition to our printed menu items, we have feature products available each day in all of our restaurants. Last year, we focused on improving our offering of unique side items. We use locally grown, farm raised products as often as possible. Some of the products we serve during season include heirloom tomatoes, heirloom carrots, fingerling potatoes, oven roasted beets, fire-grilled artichokes and virtually any good interesting vegetable or produce product we can find in our local markets. We have recently been serving Kumato tomatoes, a European tomato grown in Canada, which have been well received. We also feature Campari tomatoes as a side item in several locations.

Our menu and feature focus is on fresh and quality. We also want to make sure we have a unique set of menu offerings in each of our restaurants. We are testing upscale tacos and some additional sandwiches for our feature program as well as a brunch menu in one restaurant. Most of our entrée feature work has been in the mid price range category. We also continue to offer a wide selection of fresh seafood products. Demand for seafood has certainly increased in the last couple of years. We believe that our program offers our guests some of the best seafood available in the marketplace.

Our primary menu focus is always on providing our guests with the highest quality and freshest products possible.

It is still very hard to forecast the future. We believe consumer confidence has a lot to do with retail sales and, to a certain degree, upscale restaurant sales. We did notice a spike in consumer confidence during November. As consumer confidence continues to rise, we have observed better sales performance in our restaurants and in retail concepts in general. Our outlook for 2011 is that as the economic recovery continues, we expect to post positive same store sales results.

However, I am concerned with the high price of gasoline at the pump presently. High prices for gasoline tend to have an immediate impact on the consumer. It takes money right out of their pocketbook. My greater concern, though, is what we are observing happening to input costs in several food categories. There is considerable "inflation" in the food cost area. Anyone that buys groceries knows this. We are experiencing significant input cost increases right now and estimate that our food input costs have increased by about 8% so far this year compared to the same period of last year. Our produce costs in the first quarter of 2011 are up over 20% compared to the first quarter of last year. Part of the increase in produce cost was based on inclement weather that negatively impacted the

crops. We are optimistic that produce prices will stabilize as the year goes on. However, we have also observed significant increases in seafood and beef prices which we estimate are up approximately 9% and 7%, respectively, as well as several other cost categories. Poultry prices have been somewhat stable, but they tend to fluctuate as well. Beef demand has picked up slightly and beef prices could be up significantly this year. We have noted some third party estimates as high as 10% for beef price increases.

Another factor that impacts beef prices is ethanol. By some estimates, almost 40% of U.S. corn production now goes to produce ethanol. The kind of corn that produces fuel for your automobile is not very good for cows to eat. We are observing this phenomenon on a global basis as well. India and many other countries around the world are planting their crop fields with corn for ethanol. The cost of uniforms, aprons and other items we use in the business will probably go up because much of the cotton crop in India has been replaced by corn for ethanol. There truly is a domino-like effect when crude oil prices reach \$100 per barrel.

We can probably take some modest menu price increases this year to offset some of our input cost increases. However, we probably will not be able to offset all of them. We can do some limited menu redesign to modify and/or remove products that have exceptionally high food costs. We are already looking at some options in this area. Produce impacted our food costs significantly in the first quarter of 2011. We have waited to get a better view of produce costs before making any major modifications to our menu. However, as I write this letter we are compiling a list of things to do. Hopefully we can offset some of these cost increases. But the warning I want to issue is that the cost behavior we are seeing is very hard to predict. We have an unstable situation in the Middle East and the recent earthquake and tsunami in Japan will also have an impact on U.S. food prices. Seafood especially will probably go up as the Japanese will need to buy more seafood from nontraditional markets. A few years ago, the food markets responded relatively quickly to supply and demand issues by adjusting production. Now we do operate in a truly global economy and many of our markets are in delicate balance as to price and product availability. When demand increases for beef, seafood, produce, etc., prices shoot up almost immediately. The beef cycle is the most difficult one to predict and recover from because it is longer than for most other commodities. This is particularly true now that there is less desire to grow feed corn because of the profitability of growing corn for the production of ethanol. If demand were to increase for beef, prices would move up and stay up for several months or longer.

The only promise we can make in this area is that we will work as hard as we can to manage input costs as best we can.

We are not planning any new restaurants in 2011. We believe it is best to focus all of our attention on our 33 existing restaurants. We plan to continue to work hard on sales growth and profitability in our restaurants. Restaurant development is picking up around the country and I am sure there will be numerous good opportunities for us when we elect to pursue them. For now, however, we believe all of our energy should go into improving our existing restaurant base.

I want to revisit a few things about our company I have shared with you in the past. The following "miscellaneous" comments are from my 2005 letter to shareholders and philosophically still represent our beliefs about our business.

MISCELLANEOUS

We are a small publicly-owned company with four corporate officers. That means we all wear many hats. I am the President and Chief Executive Officer and also serve the role of Chief Operating Officer. We do not have a Director of Operations. I travel and work our restaurants. When I say I work our restaurants, I mean that when I visit our restaurants, I work. I evaluate service and food quality, review operational standards, participate in our daily taste plate (quality check) and generally inject myself in the operation enough to develop a feel for how we are doing. We are restaurateurs, first and foremost.

Occasionally I am asked why we do not do more to "promote" our Company. We are a small company and put all of our energy into food quality and service standards, leaving little time for other types of activities. We work hard on improving our business with the idea of improving our earnings. I believe that in today's electronic information age, if we make substantial improvement in our earnings, the word will get out. We also believe our disclosures should be as transparent as possible. With the exception of data we believe necessary to maintain our competitive advantages, we are quite willing to share anything. However, we will not publish any earnings guidance. With 33 restaurants (updated

from 2005) in a highly volatile industry, we do not know our results from one week to the next until we see our weekly profit and loss statement each Monday. Some weeks we beat expected results by a wide margin, and other weeks we miss by the same margin. Our reluctance to give earnings guidance has nothing to do with wanting to keep information secret. It is just that we believe to play by the rules we would have to provide it every week. We also have strong feelings that all shareholders should be treated the same. We believe the 100-share shareholder and the 100,000-share shareholder should have equal access to information.

We try to run our business as efficiently as possible. We are a public company, but we try to think like a miserly-managed private company. We do not own an airplane. We do most of our traveling on Southwest Airlines. I personally stay in hotels where I can get my AAA or senior citizen's discount. All of our management team shares the same philosophy: Be efficient and keep expenses as low as possible. We try to spend and invest wisely, just like you would with your own money.

None of our management team, including your CEO, is involved in any active business ventures other than J. Alexander's. We do not invest in other restaurants or operate restaurants on the side. We give the Company 100% of our loyalty.

Occasionally, I am asked if I have an exit strategy. The answer is yes. The Columbarium at the First Presbyterian Church in Nashville.

We do a complete business review at our annual meeting of shareholders. Our entire management team, including the operations staff, is in attendance. We are there to meet with our owners and answer any questions you might have about our business. We are hopeful many of you will attend.

One of our Directors, Brad Reed, has decided to retire from the Board and not to stand for reelection this year. Brad has been associated with our company for 40 years. He was our founder's (Jack Massey) lawyer and has been heavily involved in

everything we do. He has been a friend and mentor to me for over 30 years. We asked Brad to join our Board several years ago. Because he is a lawyer with our main law firm, he is deemed not to be "independent" under applicable regulations for purposes of serving on our Board committees. Everyone that knows Brad very well finds this to be extremely amusing. He is the most independent thinking and acting individual I and most others he knows in business have ever associated with. Anyone that has ever known him, worked with him or probably even met him would tell you the same.

Brad will be greatly missed, but I am sure that his wisdom and counsel will be available to the management team and other Board members anytime they want to call on him.

I enjoy going to work every day (well almost every day). I love our business. I enjoy spending time with our leadership team and staff, but I especially enjoy spending time in our restaurants.

However, to be quite frank, 2008 and 2009 were the most difficult two years of my life. I still recall reviewing our trend line sales report in the fourth quarter of 2007 and seeing an unexplained drop in sales growth across all of our markets. It was an ominous sign of things to come. I know those years were also difficult for our investors, our employees and our suppliers.

I am extremely appreciative of the support we had during these difficult times from our investors and the hard work of our leadership team and employees. We continue to have much work to do to improve performance to pre-recession levels. However, we are all excited about the challenge in front of us. We look forward to continuing to deliver improved results.

Once again, I want to thank all of you, our investors, Board of Directors and employees for your loyalty and support.

Sincerely,



Lonnie J. Stout II
Chairman, President and Chief Executive Officer
March 24, 2011

¹ Restaurant level cash flow is a non-GAAP financial measure computed by adding depreciation and amortization of restaurant property and equipment to the restaurant level contribution to operating income. Restaurant level contribution to operating income is computed by subtracting total restaurant operating expenses from net sales. The restaurant level cash flow information provided for the Plantation restaurant was computed as follows:

RECONCILIATION OF PLANTATION RESTAURANT LEVEL CASH FLOW
(in 000's)

	Fiscal Year 2010	Since Plantation Opened (Fiscal Years 1996-2010)
Plantation restaurant's contribution to operating income	\$1,669	\$13,134
Depreciation and amortization of restaurant property and equipment	173	2,527
Approximate restaurant level cash flow	\$1,842	\$15,661