

BJ's RESTAURANTS INC  
Form 10-Q  
May 04, 2015  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

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

**For the Quarterly Period Ended March 31, 2015**

**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 0-21423**

**BJ'S RESTAURANTS, INC.**

**(Exact name of registrant as specified in its charter)**

**California**  
**(State or other jurisdiction of**  
**incorporation or organization)**  
**7755 Center Avenue, Suite 300**  
**Huntington Beach, California 92647**  
**(714) 500-2400**  
**(Address, including zip code, and telephone number, including**  
**area code, of registrant's principal executive offices)**

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 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 (section 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 ☒ No ☐.

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 definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐

Non-accelerated filer ☐ (do not check if smaller reporting company) Smaller reporting company ☐

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

As of May 1, 2015, there were 26,226,323 shares of Common Stock of the Registrant outstanding.

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**BJ S RESTAURANTS, INC.**

**Form 10-Q**

**For the thirteen weeks ended March 31, 2015**

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. CONSOLIDATED FINANCIAL STATEMENTS****BJ S RESTAURANTS, INC.****CONSOLIDATED BALANCE SHEETS****(In thousands)**

|                                                                                                                                                       | <b>March 31,<br/>2015<br/>(unaudited)</b> | <b>December 30,<br/>2014</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------|------------------------------|
| <b>Assets</b>                                                                                                                                         |                                           |                              |
| Current assets:                                                                                                                                       |                                           |                              |
| Cash and cash equivalents                                                                                                                             | \$ 25,961                                 | \$ 30,683                    |
| Accounts and other receivables                                                                                                                        | 17,594                                    | 18,796                       |
| Inventories                                                                                                                                           | 7,823                                     | 8,010                        |
| Prepays and other current assets                                                                                                                      | 7,676                                     | 9,234                        |
| Deferred income taxes                                                                                                                                 | 14,595                                    | 14,595                       |
| Total current assets                                                                                                                                  | 73,649                                    | 81,318                       |
| Property and equipment, net                                                                                                                           | 543,751                                   | 541,349                      |
| Goodwill                                                                                                                                              | 4,673                                     | 4,673                        |
| Other assets, net                                                                                                                                     | 21,368                                    | 19,743                       |
| Total assets                                                                                                                                          | \$ 643,441                                | \$ 647,083                   |
| <b>Liabilities and Shareholders' Equity</b>                                                                                                           |                                           |                              |
| Current liabilities:                                                                                                                                  |                                           |                              |
| Accounts payable                                                                                                                                      | \$ 32,823                                 | \$ 34,395                    |
| Accrued expenses                                                                                                                                      | 76,125                                    | 72,630                       |
| Total current liabilities                                                                                                                             | 108,948                                   | 107,025                      |
| Deferred income taxes                                                                                                                                 | 39,139                                    | 38,974                       |
| Deferred rent                                                                                                                                         | 25,675                                    | 24,803                       |
| Deferred lease incentives                                                                                                                             | 53,203                                    | 51,705                       |
| Long-term debt                                                                                                                                        | 38,600                                    | 58,000                       |
| Other liabilities                                                                                                                                     | 18,654                                    | 17,887                       |
| Total liabilities                                                                                                                                     | 284,219                                   | 298,394                      |
| Commitments and contingencies                                                                                                                         |                                           |                              |
| Shareholders' equity:                                                                                                                                 |                                           |                              |
| Preferred stock, 5,000 shares authorized, none issued or outstanding                                                                                  |                                           |                              |
| Common stock, no par value, 125,000 shares authorized and 26,347 and 26,229 shares issued and outstanding as of March 31, 2015 and December 30, 2014, | 91,348                                    | 93,971                       |

|                                            |            |            |
|--------------------------------------------|------------|------------|
| respectively                               |            |            |
| Capital surplus                            | 57,758     | 54,217     |
| Retained earnings                          | 210,116    | 200,501    |
| Total shareholders' equity                 | 359,222    | 348,689    |
| Total liabilities and shareholders' equity | \$ 643,441 | \$ 647,083 |

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****BJ S RESTAURANTS, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF INCOME****(In thousands, except per share data)**

|                                                | <b>For The Thirteen<br/>Weeks Ended</b> |                          |
|------------------------------------------------|-----------------------------------------|--------------------------|
|                                                | <b>March 31,<br/>2015</b>               | <b>April 1,<br/>2014</b> |
| Revenues                                       | \$ 225,069                              | \$ 205,822               |
| Costs and expenses:                            |                                         |                          |
| Cost of sales                                  | 56,171                                  | 51,187                   |
| Labor and benefits                             | 79,695                                  | 74,396                   |
| Occupancy and operating                        | 46,590                                  | 45,074                   |
| General and administrative                     | 13,493                                  | 12,826                   |
| Depreciation and amortization                  | 14,361                                  | 13,452                   |
| Restaurant opening                             | 1,284                                   | 1,128                    |
| Loss on disposal of assets                     | 383                                     | 422                      |
| Legal and other settlements                    |                                         | 1,550                    |
| Total costs and expenses                       | 211,977                                 | 200,035                  |
| Income from operations                         | 13,092                                  | 5,787                    |
| Other income:                                  |                                         |                          |
| Interest (expense) income, net                 | (241)                                   | 7                        |
| Other income, net                              | 336                                     | 386                      |
| Total other income                             | 95                                      | 393                      |
| Income before income taxes                     | 13,187                                  | 6,180                    |
| Income tax expense                             | 3,572                                   | 1,522                    |
| Net income                                     | \$ 9,615                                | \$ 4,658                 |
| Net income per share:                          |                                         |                          |
| Basic                                          | \$ 0.37                                 | \$ 0.16                  |
| Diluted                                        | \$ 0.36                                 | \$ 0.16                  |
| Weighted average number of shares outstanding: |                                         |                          |
| Basic                                          | 26,310                                  | 28,369                   |
| Diluted                                        | 26,916                                  | 28,978                   |

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See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****BJ'S RESTAURANTS, INC.****UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)**

|                                                                                   | <b>For The Thirteen Weeks Ended</b> |                      |
|-----------------------------------------------------------------------------------|-------------------------------------|----------------------|
|                                                                                   | <b>March 31, 2015</b>               | <b>April 1, 2014</b> |
| Cash flows from operating activities:                                             |                                     |                      |
| Net income                                                                        | \$ 9,615                            | \$ 4,658             |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                     |                      |
| Depreciation and amortization                                                     | 14,361                              | 13,452               |
| Deferred income taxes                                                             | 165                                 | 1,596                |
| Stock-based compensation expense                                                  | 1,259                               | 1,242                |
| Loss on disposal of assets                                                        | 383                                 | 422                  |
| Changes in assets and liabilities:                                                |                                     |                      |
| Accounts and other receivables                                                    | 3,401                               | (78)                 |
| Landlord contribution for tenant improvements                                     | (2,199)                             | 400                  |
| Inventories                                                                       | 187                                 | 298                  |
| Prepays and other current assets                                                  | 1,483                               | 896                  |
| Other assets                                                                      | (1,756)                             | (333)                |
| Accounts payable                                                                  | (2,702)                             | (1,417)              |
| Accrued expenses                                                                  | 3,495                               | 8,395                |
| Deferred rent                                                                     | 872                                 | 608                  |
| Deferred lease incentives                                                         | 1,498                               | (984)                |
| Other liabilities                                                                 | 767                                 | 226                  |
| Net cash provided by operating activities                                         | 30,829                              | 29,381               |
| Cash flows from investing activities:                                             |                                     |                      |
| Purchases of property and equipment                                               | (15,750)                            | (24,648)             |
| Proceeds from sale of assets                                                      |                                     | 4,932                |
| Proceeds from marketable securities sold                                          |                                     | 2,838                |
| Purchases of marketable securities                                                |                                     | (3,300)              |
| Net cash used in investing activities                                             | (15,750)                            | (20,178)             |
| Cash flows from financing activities:                                             |                                     |                      |
| Borrowings on line of credit                                                      | 30,100                              |                      |
| Payments on line of credit                                                        | (49,500)                            |                      |
| Excess tax benefit from stock-based compensation                                  | 2,355                               | 1,167                |
| Taxes paid on vested stock units under employee plans                             | (133)                               | (314)                |
| Proceeds from exercise of stock options                                           | 4,151                               | 1,818                |
| Repurchases of common stock                                                       | (6,774)                             |                      |
| Net cash (used in)/provided by financing activities                               | (19,801)                            | 2,671                |

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|                                                                                |           |           |
|--------------------------------------------------------------------------------|-----------|-----------|
| Net (decrease)/increase in cash and cash equivalents                           | (4,722)   | 11,874    |
| Cash and cash equivalents, beginning of period                                 | 30,683    | 22,995    |
| Cash and cash equivalents, end of period                                       | \$ 25,961 | \$ 34,869 |
| <b>Supplemental disclosure of cash flow information:</b>                       |           |           |
| Cash paid for income taxes                                                     | \$ 6,336  | \$ 2,012  |
| Cash paid for interest, net of capitalized interest                            | \$ 175    | \$        |
| <b>Supplemental disclosure of non-cash investing and financing activities:</b> |           |           |
| Fixed assets acquired by accounts payable                                      | \$ 11,424 | \$ 6,997  |
| Stock-based compensation capitalized                                           | \$ 60     | \$ 43     |

See accompanying notes to unaudited consolidated financial statements.

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**BJ'S RESTAURANTS, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements include the accounts of BJ's Restaurants, Inc. (referred to herein as the Company or in the first person notations we, us and our) and our wholly owned subsidiaries. The financial statements presented herein include all material adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair statement of the financial condition, results of operations and cash flows for the period. Our consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The preparation of financial statements in accordance with U.S. GAAP requires us to make certain estimates and assumptions for the reporting periods covered by the financial statements. These estimates and assumptions affect the reported amounts of assets, liabilities, revenues and expenses. Actual amounts could differ from these estimates.

Certain information and footnote disclosures normally included in consolidated financial statements in accordance with U.S. GAAP have been omitted pursuant to requirements of the U.S. Securities and Exchange Commission (SEC). A description of our accounting policies and other financial information is included in our audited consolidated financial statements as filed with the SEC on Form 10-K for the year ended December 30, 2014. We believe that the disclosures included in our accompanying interim financial statements and footnotes are adequate to make the information not misleading, but should be read in conjunction with our consolidated financial statements and notes thereto included in the Annual Report on Form 10-K. The accompanying consolidated balance sheet as of December 30, 2014, has been derived from our audited consolidated financial statements.

***Recent Accounting Pronouncements***

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This update provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. Additionally, this guidance expands related disclosure requirements. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016, and early application is not permitted. This update permits the use of either the retrospective or cumulative effect transition method. In April 2015, the FASB proposed a one-year deferral of the effective date; however, the deferral has not yet been approved. We are currently evaluating the impact this guidance will have on our consolidated financial statements as well as the expected adoption method.

In August 2014, the FASB issued ASU 2014-15, *Disclosure of Uncertainties about an Entity's Going Concern (Subtopic 205-40)*. This update requires management to evaluate whether there are conditions and events that raise substantial doubt about an entity's ability to continue as a going concern within one year after the financial statements are issued. Management is required to make this evaluation for both annual and interim reporting periods and must disclose whether its plans alleviate that doubt. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for interim periods beginning after December 15, 2016, and early adoption is permitted. We do not believe the adoption of ASU 2014-15 will have a material impact on our consolidated financial statements.

In April, 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs (Subtopic 835-30)*. This update requires debt issuance costs to be presented in the balance sheet as a direct deduction from the

associated debt liability. Currently, debt issuance costs are recorded as an asset and amortization of these deferred financing costs is recorded in interest expense. Under the new standard, debt issuance costs will continue to be amortized over the life of the debt instrument and amortization will continue to be recorded in interest expense. ASU 2015-03 is effective for the Company on January 1, 2016, and will be applied on a retrospective basis. We are currently evaluating the impact this guidance will have on our consolidated financial statements and only anticipate a change in our presentation since the standard does not alter the accounting for debt issuance costs.

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**Table of Contents****2. MARKETABLE SECURITIES**

During fiscal 2014, all investments were liquidated. Prior to that, all highly liquid investments with maturities of three months or less at the date of purchase were classified as cash equivalents and included with Cash and cash equivalents on our accompanying Consolidated Balance Sheets. Marketable securities, which we had the intent and ability to hold until maturity, were classified as held-to-maturity securities and reported at amortized cost, which approximated fair value.

Additionally, our investment policy restricted the investment of our excess cash balances to instruments with historically minimal volatility, such as money market funds, U.S. Treasury and direct agency obligations, municipal and bank securities, and investment-grade corporate debt securities. We determined the appropriate classification of our marketable securities at the time of purchase and reevaluated the held-to-maturity or available-for-sale designations as of each balance sheet date. Marketable securities were classified as either short-term or long-term based on each instrument's underlying contractual maturity date or the expected put date. Marketable securities with maturities or expected put dates of 12 months or less were classified as short-term and marketable securities with maturities or expected put dates greater than 12 months were classified as long-term. Gains or losses were determined on the specific identification cost method and recorded in earnings when realized.

**3. LONG-TERM DEBT*****Line of Credit***

On September 3, 2014, we entered into a new loan agreement (Credit Facility) which amended and restated in its entirety our prior loan agreement dated February 17, 2012. This Credit Facility, which matures on September 3, 2019, provides us with revolving loan commitments totaling \$150 million, of which \$50 million may be used for issuances of letters of credit. Availability under the Credit Facility is reduced by outstanding letters of credit, which are used to support our self-insurance programs. The Credit Facility contains a commitment increase feature that could provide for an additional \$50 million in available credit upon our request and the satisfaction of certain conditions. Our obligations under the Credit Facility are unsecured. As of March 31, 2015, there were borrowings of \$38.6 million outstanding under the Credit Facility and there were outstanding letters of credit totaling approximately \$14.0 million. The Credit Facility bears interest at either our choice of LIBOR plus a percentage not to exceed 1.75%, or at a rate ranging from Bank of America's publicly announced prime rate to 0.75% above Bank of America's prime rate, based on our level of lease and debt obligations as compared to EBITDA and lease expenses. At March 31, 2015, interest paid on the borrowings under the Credit Facility was approximately \$0.2 million. The weighted average interest rate was approximately 1.42%.

The Credit Facility contains provisions requiring us to maintain compliance with certain financial and non-financial covenants, including a Fixed Charge Coverage Ratio and a Lease Adjusted Leverage Ratio. At March 31, 2015, we were in compliance with these covenants.

**4. NET INCOME PER SHARE**

Basic net income per share is computed by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if stock options issued by us to sell common stock at set prices were exercised and if restrictions on restricted stock units issued by us were to lapse (collectively, equity awards) using the treasury stock method. Performance-based restricted stock units have been excluded from the diluted computation because the performance-based criteria have not been met. The consolidated financial statements present basic and diluted net

income per share.

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The following table presents a reconciliation of basic and diluted net income per share computations and the number of dilutive equity awards (stock options and restricted stock units) that were included in the dilutive net income per share computation (in thousands):

|                                                       | <b>For The Thirteen<br/>Weeks Ended</b> |                          |
|-------------------------------------------------------|-----------------------------------------|--------------------------|
|                                                       | <b>March 31,<br/>2015</b>               | <b>April 1,<br/>2014</b> |
| <b>Numerator:</b>                                     |                                         |                          |
| Net income for basic and diluted net income per share | \$ 9,615                                | \$ 4,658                 |
| <b>Denominator:</b>                                   |                                         |                          |
| Weighted-average shares outstanding basic             | 26,310                                  | 28,369                   |
| Dilutive effect of equity awards                      | 606                                     | 609                      |
| Weighted-average shares outstanding diluted           | 26,916                                  | 28,978                   |

For the thirteen weeks ended March 31, 2015 and April 1, 2014, there were approximately 0.1 million and 0.8 million shares of common stock equivalents, respectively, that have been excluded from the calculation of diluted net income per share because they are anti-dilutive.

**5. RELATED PARTY**

As of March 31, 2015, we believe that Jacmar Companies and their affiliates (collectively referred to herein as Jacmar ) owned approximately 12.0% of our outstanding common stock. In addition, James Dal Pozzo, the Chief Executive Officer of Jacmar, is a member of our Board of Directors. We also understand that Jacmar and its affiliates are the controlling shareholders of the Shakey's pizza parlor chain. Jacmar, through its affiliation with DMA, is currently our largest supplier of food, beverage, paper products and supplies. We began using DMA for our national foodservice distribution in July 2006. In July 2012, we finalized a new five-year agreement with DMA, after conducting another extensive competitive bidding process. Jacmar services our restaurants in California and Nevada, while other DMA distributors service our restaurants in all other states. We believe that Jacmar sells products to us at prices comparable to those offered by unrelated third parties based on our competitive bidding process. Jacmar supplied us with \$21.6 million and \$20.9 million of food, beverage, paper products and supplies for the thirteen weeks ended March 31, 2015 and April 1, 2014, respectively, which represents 21.1% and 21.8% of our total costs of sales and operating and occupancy costs, respectively. We had trade payables related to these products of \$5.4 million and \$4.0 million, at March 31, 2015 and December 30, 2014, respectively. Jacmar does not provide us with any produce, liquor, wine or beer products, all of which are provided by other vendors and are included in Cost of sales on the Consolidated Statements of Income.

**6. STOCK-BASED COMPENSATION**

Our shareholder approved stock-based compensation plan is the 2005 Equity Incentive Plan ( the Plan ). Under the Plan, we may issue shares of our common stock to employees, officers, directors and consultants. We have granted incentive stock options, non-qualified stock options and time-based restricted stock units ( RSUs ). In fiscal 2014, we also issued performance-based RSUs. Shares subject to stock options and stock appreciation rights are charged against the Plan share reserve on the basis of one share for each one share granted while shares subject to other types of

awards, including restricted stock units, are currently charged against the Plan share reserve on the basis of 1.5 shares for each one share granted. The Plan also contains other limits with respect to the terms of different types of incentive awards and with respect to the number of shares subject to awards that can be granted to an employee during any fiscal year. All options granted under the Plan expire within 10 years of their date of grant.

Under the Plan, we issue time-based and performance-based RSUs as a component of the annual equity grant award to officers and other employees and in connection with the BJ's Gold Standard Stock Ownership Program (the "GSSOP"). The GSSOP is a longer-term equity incentive program for our restaurant general managers, executive kitchen managers and restaurant field supervision that utilizes Company RSUs or stock options and is dependent on each participant's extended service with us in their respective positions while remaining in good standing during that service period (i.e., five years).

The Plan permits us to set the vesting terms and exercise period for awards at our discretion. Stock options generally vest at 20% per year or cliff vest, either ratably in years three through five or 100% in year five, and expire ten years from date of grant. Time-based RSUs generally vest at 20% per year for non-GSSOP RSU grantees and generally cliff vest either at 33% on the third anniversary and 67% on the fifth anniversary or at 100% after the fifth anniversary for GSSOP participants. Performance-based RSUs generally cliff vest on the third anniversary of the date of grant if the targets have been achieved.

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The following table presents information related to stock-based compensation (in thousands):

|                            | <b>For The Thirteen Weeks Ended</b> |                      |
|----------------------------|-------------------------------------|----------------------|
|                            | <b>March 31, 2015</b>               | <b>April 1, 2014</b> |
| Labor and benefits         | \$ 339                              | \$ 517               |
| General and administrative | \$ 920                              | \$ 725               |
| Capitalized (1)            | \$ 60                               | \$ 43                |

(1) Capitalized stock-based compensation is included in Property and equipment, net on the Consolidated Balance Sheets.

**Stock Options**

The fair value of each stock option grant issued is estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

|                               | <b>For the Thirteen Weeks Ended</b> |                      |
|-------------------------------|-------------------------------------|----------------------|
|                               | <b>March 31, 2015</b>               | <b>April 1, 2014</b> |
| Expected volatility           | 37.1%                               | 37.9%                |
| Risk free interest rate       | 1.4%                                | 1.6%                 |
| Expected option life          | 5 years                             | 5 years              |
| Dividend yield                | 0%                                  | 0%                   |
| Fair value of options granted | \$ 16.45                            | \$ 10.63             |

U.S. GAAP requires us to make certain assumptions and judgments regarding the grant date fair value. These judgments include expected volatility, risk free interest rate, expected option life, dividend yield and vesting percentage. These estimations and judgments are determined by us using many different variables that, in many cases, are outside of our control. The changes in these variables or trends, including stock price volatility and risk free interest rate, may significantly impact the grant date fair value, resulting in a significant impact to our financial results.

The exercise price of the stock options under our stock-based compensation plans shall be equal to or exceed 100% of the fair market value of the shares at the date of option grant. The following table represents stock option activity:

|                                  | <b>Options Outstanding</b> |                                        | <b>Options Exercisable</b> |                                        |
|----------------------------------|----------------------------|----------------------------------------|----------------------------|----------------------------------------|
|                                  | <b>Shares</b>              | <b>Weighted Average Exercise Price</b> | <b>Shares</b>              | <b>Weighted Average Exercise Price</b> |
|                                  | <b>(in thousands)</b>      | <b></b>                                | <b>(in thousands)</b>      | <b></b>                                |
| Outstanding at December 30, 2014 | 1,522                      | \$ 25.62                               | 1,008                      | \$ 21.46                               |

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|                               |       |    |       |     |          |
|-------------------------------|-------|----|-------|-----|----------|
| Granted                       | 158   | \$ | 47.66 |     |          |
| Exercised                     | (229) | \$ | 18.14 |     |          |
| Forfeited                     | (12)  | \$ | 32.52 |     |          |
| Outstanding at March 31, 2015 | 1,439 | \$ | 29.17 | 858 | \$ 23.47 |

As of March 31, 2015, total unrecognized stock-based compensation expense related to non-vested stock options was \$6.0 million, which is generally expected to be recognized over the next five years.

***Restricted Stock Units***

***Time-Vested Restricted Stock Units***

Time-vested restricted stock unit activity was as follows:

|                                  | <b>Shares<br/>(in thousands)</b> | <b>Weighted<br/>Average<br/>Fair Value</b> |
|----------------------------------|----------------------------------|--------------------------------------------|
| Outstanding at December 30, 2014 | 427                              | \$ 34.66                                   |
| Granted                          | 64                               | \$ 48.68                                   |
| Vested or released               | (25)                             | \$ 29.04                                   |
| Forfeited                        | (15)                             | \$ 37.71                                   |
| Outstanding at March 31, 2015    | 451                              | \$ 36.88                                   |

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The fair value of the time-vested RSUs is the quoted market value of our common stock on the date of grant. The fair value of each time-vested RSU is expensed over the period during which the restrictions are expected to lapse (e.g., five years). As of March 31, 2015, total unrecognized stock-based compensation expense related to non-vested RSUs was approximately \$8.9 million, which is generally expected to be recognized over the next five years.

*Performance-Based Restricted Stock Units*

Performance-based restricted stock unit activity was as follows:

|                                  | <b>Shares<br/>(in thousands)</b> | <b>Weighted<br/>Average<br/>Fair Value</b> |
|----------------------------------|----------------------------------|--------------------------------------------|
| Outstanding at December 30, 2014 | 30                               | \$ 32.49                                   |
| Granted                          |                                  |                                            |
| Vested or released               |                                  |                                            |
| Forfeited                        |                                  |                                            |
| Outstanding at March 31, 2015    | 30                               | \$ 32.49                                   |

The fair value of the performance-based RSUs is the quoted market value of our common stock on the date of grant. The fair value of each performance-based RSU is recognized when it is probable the performance goal will be achieved. As of March 31, 2015, total unrecognized stock-based compensation expense related to non-vested performance-based RSUs was approximately \$0.6 million.

**7. INCOME TAXES**

We calculate our interim income tax provision in accordance with ASC Topic 270, *Interim Reporting* and ASC Topic 740, *Accounting for Income Taxes*. At the end of each interim period, we estimate the annual effective tax rate and apply that rate to our ordinary year to date earnings. The related tax expense or benefit is recognized in the interim period in which it occurs. In addition, the effect of changes in enacted tax laws, rates or tax status is recognized in the interim period in which the change occurs. The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including the expected operating income for the year, permanent and temporary differences as a result of differences between amounts measured and recognized in accordance with tax laws and financial accounting standards, and the likelihood of recovering deferred tax assets generated in the current fiscal year. The accounting estimates used to compute income tax expense may change as new events occur, additional information is obtained or the tax environment changes.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 30, 2014, the amount recorded for interest and penalties changed for tax positions taken in the current year. As of March 31, 2015, unrecognized tax benefits recorded was approximately \$2.2 million, of which approximately \$0.8 million, if reversed, would impact our effective tax rate. We anticipate a decrease of \$1.4 million to our liability for unrecognized tax benefits within the next twelve-month period due to the lapse of statutes of limitation. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

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|                                                    |          |
|----------------------------------------------------|----------|
| Balance at December 30, 2014                       | \$ 2,173 |
| Increase for tax positions taken in current period | 6        |
| Balance at March 31, 2015                          | \$ 2,179 |

Our uncertain tax positions are related to tax years that remain subject to examination by tax agencies. As of March 31, 2015, the earliest tax year still subject to examination by the Internal Revenue Service is 2011. The earliest year still subject to examination by a significant state or local taxing jurisdiction is 2010.

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**8. LEGAL PROCEEDINGS**

We are subject to private lawsuits, administrative proceedings and demands that arise in the ordinary course of our business and which typically involve claims from customers, employees and others related to operational, employment, real estate and intellectual property issues common to the foodservice industry. A number of these claims may exist at any given time. We are self-insured for a portion of our general liability insurance and our employee workers' compensation programs. We maintain coverage with a third party insurer to limit our total exposure for these programs. We believe that most of our customer claims will be covered by our general liability insurance, subject to coverage limits and the portion of such claims that are self-insured. Punitive damages awards and employee unfair practice claims, however, are not covered by our general liability insurance. To date, we have not been ordered to pay punitive damages with respect to any claims, but there can be no assurance that punitive damages will not be awarded with respect to any future claims. We could be affected by adverse publicity resulting from allegations in lawsuits, claims and proceedings, regardless of whether these allegations are valid or whether we are ultimately determined to be liable. We currently believe that the final disposition of these types of lawsuits, proceedings and claims will not have a material adverse effect on our financial position, results of operations or liquidity. It is possible, however, that our future results of operations for a particular quarter or fiscal year could be impacted by changes in circumstances relating to lawsuits, proceedings or claims.

**9. STOCK REPURCHASES**

In April 2014, our Board of Directors authorized a \$50 million share repurchase plan, which was increased to \$150 million in August 2014. During the thirteen weeks ended March 31, 2015, we repurchased and retired approximately 0.1 million shares of our common stock at an average price of \$48.04 per share for a total of approximately \$6.8 million, which is recorded as a reduction in our common stock account. As of March 31, 2015, approximately \$43.2 million remains available for additional repurchases under our authorized repurchase program.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE**

Certain information included in this Form 10-Q and other materials filed or to be filed by us with the SEC (as well as information included in oral or written statements made by us or on our behalf) may contain forward-looking statements about our current and expected performance trends, growth plans, business goals and other matters. These statements may be contained in our filings with the Securities and Exchange Commission, in our press releases, in other written communications, and in oral statements made by or with the approval of one of our authorized officers. Words or phrases such as believe, plan, will likely result, expect, intend, will continue, is anticipated, estimate, project, may, could, would, should, and similar expressions are intended to identify forward-looking statements. These statements, and any other statements that are not historical facts, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as codified in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended from time to time (the Act). The cautionary statements made in this Form 10-Q should be read as being applicable to all related forward-looking statements wherever they appear in this Form 10-Q.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and notes thereto included elsewhere in this Form 10-Q. Except for the historical information contained herein, the discussion in this Form 10-Q contains certain forward-looking statements that involve known and unknown risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The risks described in this Form

10-Q, as well as the risks identified in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2014, are not the only risks we face. These statements reflect our current perspectives and outlook with respect to the Company's future expansion plans, key business initiatives, expected operating conditions and other factors. Moreover, we operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. Additional risks and uncertainties that we are currently unaware of, or that we currently deem immaterial, also may become important factors that affect us. It is not possible for us to predict the impact of all of these factors on our business, financial condition or results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given the volatility of the operating environment and its associated risks and uncertainties, investors should not rely on forward-looking statements as any prediction or guarantee of actual results.

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Forward-looking statements include, among others, statements concerning:

our restaurant concept, its competitive advantages and our strategies for its continued evolution and expansion;

the rate and scope of our planned future restaurant development;

the estimated total domestic capacity for our restaurants;

anticipated dates on which we will commence or complete the development and opening of new restaurants;

expectations for consumer spending on casual dining restaurant occasions;

expectations as to the availability and costs of key commodities used in our restaurants and brewing operations;

expectations as to our menu price increases and their effect, if any, on revenue and results of operations;

expectations as to the effectiveness of our planned operational, menu, marketing and capital expenditure initiatives;

expectations as to our capital requirements and actual or available borrowings on our line of credit;

expectations as to our future revenues, operating costs and expenses; and

other statements of expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

These forward-looking statements are subject to risks and uncertainties, including financial, regulatory, consumer behavior, demographic, industry growth and trend projections, that could cause actual events or results to differ materially from those expressed or implied by the statements. Some, but not all, significant factors that could prevent us from achieving our stated goals include, but are not limited to:

Our success depends substantially on the favorable image, credibility and value of the BJ's brand and our reputation for offering customers a higher quality, more differentiated total dining experience at a good

value.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely impact our business.

Any deterioration in general economic conditions may affect consumer spending and may adversely affect our revenues, operating results and liquidity.

Any deterioration in general economic conditions could also have a material adverse impact on our landlords or on businesses neighboring our locations, which could adversely affect our revenues and results of operations.

If we do not successfully expand our restaurant operations, our growth rate and results of operations would be adversely affected.

Our ability to open new restaurants on schedule in accordance with our targeted capacity growth rate may be adversely affected by delays or problems associated with securing suitable restaurant locations, leases and licenses, recruiting and training qualified managers and hourly employees to correctly operate our new restaurants and by other factors, some of which are beyond our control and the timing of which is difficult to forecast accurately.

Access to sources of capital and our ability to raise capital in the future may be limited, which could adversely affect our business and our expansion plans.

Any failure of our existing or new restaurants to achieve expected results could have a negative impact on our consolidated revenues and financial results, including a potential impairment of the long-lived assets of certain restaurants.

Our growth may strain our infrastructure and resources, which could slow our development of new restaurants and adversely affect our ability to manage our existing restaurants.

Any decision to either reduce or accelerate the pace of openings may positively or adversely affect our comparative financial performance.

Our costs to construct new restaurants are susceptible to both material and labor cost fluctuations which could adversely affect our return on investment results for new restaurants.

Our future operating results may fluctuate significantly due to the expenses required opening new restaurants.

A significant number of our restaurants are concentrated in California, Texas and Florida, which makes us particularly sensitive to economic, regulatory, weather and other risk factors and conditions that are more prevalent in those states.

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Our operations are susceptible to changes in our food, labor and related employee benefits (including, but not limited to, group health insurance coverage for our employees), brewery and energy supplies which could adversely affect our profitability.

Our dependence on independent third party brewers and manufacturers for some of our beer and soda could have an adverse effect on our operations if they cease to supply us with our proprietary craft beer and sodas.

Our internal brewing, independent third party brewing and beer distribution arrangements are subject to periodic reviews and audits by various federal, state and local governmental and regulatory agencies and could be adversely affected by different interpretations of the laws and regulations that govern such arrangements or by new laws and regulations.

Government laws and regulations affecting the operation of our restaurants, including but not limited to those that apply to the acquisition and maintenance of our brewing and retail liquor licenses, minimum wages, consumer health and safety, health insurance coverage, nutritional disclosures, and employment eligibility-related documentation requirements could increase our operating costs, cause unexpected disruptions to our operations and restrict our growth.

We are heavily dependent on information technology in our operations as well as with respect to our customer loyalty and employee engagement programs. Any material failure of such technology, including but not limited to cyber-attacks, could materially adversely affect our revenues and impair our ability to efficiently operate our business.

Unsolicited takeover proposals, governance change proposals, proxy contests and certain proposals/actions by activist investors may create additional risks and uncertainties with respect to the Company's financial position, operations, strategies and management, and may adversely affect our ability to attract and retain key employees. Any perceived uncertainties as to our future direction also could affect the market price and volatility of our securities.

Any failure to complete stock repurchases under our previously announced repurchase program may negatively impact investor perceptions of us and could therefore affect the market price and volatility of our stock.

For a more detailed description of these risk factors and other considerations, see Part II, Item 1A – Risk Factors of this Form 10-Q and the risk factors identified in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2014.

## **GENERAL**

As of May 4, 2015, we owned and operated 159 restaurants located in the 19 states of Arizona, Arkansas, California, Colorado, Florida, Indiana, Kansas, Kentucky, Louisiana, Maryland, Nevada, New Mexico, New York, Ohio, Oklahoma, Oregon, Texas, Virginia and Washington. Each of our restaurants is operated either as a BJ's Restaurant & Brewery®, a BJ's Restaurant & Brewhouse®, a BJ's Pizza & Grill®, or a BJ's Grill restaurant. Our menu features BJ's

award-winning, signature deep-dish pizza, our proprietary craft beers and other beers, as well as a wide selection of appetizers, entrées, pastas, sandwiches, specialty salads and desserts, including our Pizookie® dessert. Our proprietary craft beer is produced at several of our BJ's Restaurant & Brewery® locations as well as by independent third party brewers using our proprietary recipes. Our four BJ's Pizza & Grill restaurants are a smaller format, full-service restaurant than our large format BJ's Restaurant & Brewhouse® and BJ's Restaurant & Brewery® locations and reflect the original format of the BJ's restaurant concept that was first introduced in 1978. Our BJ's Restaurant & Brewhouse format currently represents our primary expansion vehicle. BJ's Grill is a smaller footprint restaurant that is currently intended to serve as a live research and development restaurant, where certain food, beverage, facility, technological and operational enhancements are tested for potential application to our larger restaurants.

Our revenues are comprised of food and beverage sales at our restaurants. Revenues from restaurant sales are recognized when payment is tendered at the point of sale. Amounts paid with a credit card are recorded in accounts and other receivables until payment is collected. Revenues from our gift cards are recognized upon redemption in our restaurants. Gift card breakage is recognized as a component of Other income, net on our Consolidated Statements of Income. Gift card breakage is recorded when the likelihood of the redemption of the gift cards becomes remote, which is typically after 24 months from original gift card issuance.

In calculating comparable company-owned restaurant sales, we include a restaurant in the comparable base once it has been open for 18 months. Customer traffic for our restaurants is estimated based on individual customer checks.

Cost of sales is comprised of food and beverage costs, including the cost to produce and distribute our proprietary craft beer, soda and ciders. The components of cost of sales are variable and typically fluctuate directly with sales volumes. Labor and benefit costs include direct hourly and management wages, bonuses and payroll taxes and fringe benefits for restaurant employees, including stock-based compensation and workers' compensation expense that is directly related to restaurant level employees.

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Occupancy and operating expenses include restaurant supplies, credit card fees, marketing costs, fixed rent, percentage rent, common area maintenance charges, utilities, real estate taxes, repairs and maintenance and other related restaurant costs.

General and administrative costs include all corporate, field supervision and administrative functions that support existing operations and provide infrastructure to facilitate our future growth. Components of this category include corporate management, field supervision and corporate hourly staff salaries and related employee benefits (including stock-based compensation expense and cash-based incentive compensation), travel and relocation costs, information systems, the cost to recruit and train new restaurant management employees, corporate rent, certain brand marketing-related expenses and legal, professional and consulting fees.

Depreciation and amortization principally include depreciation on capital expenditures for restaurants.

Restaurant opening expenses, which are expensed as incurred, consist of the costs of hiring and training the initial hourly work force for each new restaurant, travel, the cost of food and supplies used in training, grand opening promotional costs, the cost of the initial stocking of operating supplies and other direct costs related to the opening of a restaurant, including rent during the construction and in-restaurant training period.

While we currently expect to pursue the renewal of substantially all of our expiring restaurant leases, there is no guarantee that we can mutually agree to a new lease that is satisfactory to our landlord and us or that, if renewed, rents will not increase substantially. We currently have one smaller format Pizza & Grill restaurant lease scheduled to expire during the next twelve months. We are currently in discussions to relocate this restaurant within the same trade area in the next 12 to 24 months.

**RESULTS OF OPERATIONS**

The following table sets forth, for the periods indicated, our unaudited Consolidated Statements of Income expressed as percentages of total revenues. The results of operations for the thirteen weeks ended March 31, 2015 and April 1, 2014, are not necessarily indicative of the results to be expected for the full fiscal year. Percentages reflected below may not reconcile due to rounding.

|                               | <b>For The Thirteen<br/>Weeks Ended</b> |                          |
|-------------------------------|-----------------------------------------|--------------------------|
|                               | <b>March 31,<br/>2015</b>               | <b>April 1,<br/>2014</b> |
| Revenues                      | 100.0%                                  | 100.0%                   |
| Costs and expenses:           |                                         |                          |
| Cost of sales                 | 25.0                                    | 24.9                     |
| Labor and benefits            | 35.4                                    | 36.1                     |
| Occupancy and operating       | 20.7                                    | 21.9                     |
| General and administrative    | 6.0                                     | 6.2                      |
| Depreciation and amortization | 6.4                                     | 6.5                      |
| Restaurant opening            | 0.6                                     | 0.5                      |
| Loss on disposal of assets    | 0.2                                     | 0.2                      |
| Legal and other settlements   |                                         | 0.8                      |

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|                            |       |      |
|----------------------------|-------|------|
| Total costs and expenses   | 94.2  | 97.2 |
| Income from operations     | 5.8   | 2.8  |
| Other income:              |       |      |
| Interest income, net       | (0.1) |      |
| Other income, net          | 0.1   | 0.2  |
| Total other income         |       | 0.2  |
| Income before income taxes | 5.9   | 3.0  |
| Income tax expense         | 1.6   | 0.7  |
| Net income                 | 4.3%  | 2.3% |

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*Revenues.* Total revenues increased by \$19.2 million, or 9.4%, to \$225.1 million during the thirteen weeks ended March 31, 2015, from \$205.8 million during the comparable thirteen week period of 2014. The increase in revenues primarily consisted of an approximate 3.2%, or \$6.0 million, increase in comparable restaurant sales, coupled with approximately \$13.2 million in sales from new restaurants not yet in our comparable restaurant sales base. The increase in comparable restaurant sales resulted from an increase in customer traffic of approximately 1.5% and an increase in the average check of approximately 1.7%.

*Cost of Sales.* Cost of sales increased by \$5.0 million, or 9.7%, to \$56.2 million during the thirteen weeks ended March 31, 2015, from \$51.2 million during the comparable thirteen week period of 2014. This increase was primarily due to the opening of 11 new restaurants since the thirteen weeks ended April 1, 2014. As a percentage of revenues, cost of sales increased to 25.0% for the current thirteen week period from 24.9% for the prior year comparable thirteen week period. The slight percentage increase was primarily related to commodity cost increases, offset by a shift in our menu mix and increased menu pricing.

*Labor and Benefits.* Labor and benefit costs for our restaurants increased by \$5.3 million, or 7.1%, to \$79.7 million during the thirteen weeks ended March 31, 2015, from \$74.4 million during the comparable thirteen week period of 2014. This increase was primarily due to the opening of 11 new restaurants since the thirteen weeks ended April 1, 2014. As a percentage of revenues, labor and benefit costs decreased to 35.4% for the current thirteen week period from 36.1% for the prior year comparable thirteen week period. The percentage decrease was primarily related to improved hourly labor productivity, coupled with our ability to leverage the fixed component of these expenses as a result of higher comparable restaurant sales increases, offset by higher benefit costs for medical insurance for our hourly employees. Included in labor and benefits for the thirteen weeks ended March 31, 2015 and April 1, 2014, was approximately \$0.3 million and \$0.5 million, or 0.2% and 0.3% of revenues, respectively, of stock-based compensation expense related to equity awards granted in accordance with our Gold Standard Stock Ownership Program for certain restaurant management team members.

*Occupancy and Operating.* Occupancy and operating expenses increased by \$1.5 million, or 3.4%, to \$46.6 million during the thirteen weeks ended March 31, 2015, from \$45.1 million during the comparable thirteen week period of 2014. This increase was primarily due to the opening of 11 new restaurants since the thirteen weeks ended April 1, 2014. As a percentage of revenues, occupancy and operating expenses decreased to 20.7% for the current thirteen week period from 21.9% for the prior year comparable thirteen week period. This percentage decrease was a result of lower repairs and maintenance, supply costs and marketing spend, coupled with our ability to leverage the fixed component of these expenses as a result of comparable restaurant sales increases.

*General and Administrative.* General and administrative expenses increased by \$0.7 million, or 5.2%, to \$13.5 million during the thirteen weeks ended March 31, 2015, from \$12.8 million during the comparable thirteen week period of 2014. The increase in general and administrative costs was primarily due to higher field supervision and support costs. Also included in general and administrative costs for the thirteen weeks ended March 31, 2015 and April 1, 2014, was approximately \$0.9 million and \$0.7 million, or 0.4% of revenues, respectively, of stock-based compensation expense. As a percentage of revenues, general and administrative expenses decreased to 6.0% for the current thirteen week period from 6.2% for the prior year comparable thirteen week period. This percentage decrease was primarily due to our ability to leverage the fixed component of these expenses over a higher revenue base from new restaurants and our comparable restaurant sales increases.

*Depreciation and Amortization.* Depreciation and amortization increased by \$0.9 million, or 6.8%, to \$14.4 million during the thirteen weeks ended March 31, 2015, compared to \$13.5 million during the comparable thirteen week period of 2014. As a percentage of revenues, depreciation and amortization decreased to 6.4% for the current thirteen week period from 6.5% for the prior year comparable thirteen week period. This percentage decrease was principally a result of decreased construction costs for new restaurants as a result of our new prototype coupled with our ability to leverage the fixed component of these expenses as a result of comparable restaurant sales increases.

*Restaurant Opening.* Restaurant opening expense was \$1.3 million during the thirteen weeks ended March 31, 2015, compared to \$1.1 million during the comparable thirteen week period of 2014. This increase is due to the timing of our restaurant openings.

*Loss on Disposal of Assets.* The loss on disposal of assets was \$0.4 million during the thirteen weeks ended March 31, 2015, and April 1, 2014. These costs primarily related to the disposal of certain unproductive restaurant assets.

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*Income Tax Expense.* Our effective income tax rate for the thirteen weeks ended March 31, 2015, was 27.1% compared to 24.6% for the comparable thirteen week period of 2014. The effective income tax rate for the thirteen weeks ended March 31, 2015, differed from the statutory income tax rate primarily due to tax credits.

**LIQUIDITY AND CAPITAL RESOURCES**

The following tables set forth, for the periods indicated, a summary of our key liquidity measurements (dollar amounts in thousands):

|                           | <b>March 31, 2015</b> | <b>December 30, 2014</b> |
|---------------------------|-----------------------|--------------------------|
| Cash and cash equivalents | \$ 25,961             | \$ 30,683                |
| Net working capital       | \$ (35,299)           | \$ (25,707)              |
| Current ratio             | 0.7:1.0               | 0.8:1.0                  |

|                                       | <b>For The Thirteen Weeks Ended</b> |                      |
|---------------------------------------|-------------------------------------|----------------------|
|                                       | <b>March 31, 2015</b>               | <b>April 1, 2014</b> |
| Cash provided by operating activities | \$ 30,829                           | \$ 29,381            |
| Capital expenditures                  | \$ 15,750                           | \$ 24,648            |

Our fundamental corporate finance philosophy is to maintain a conservative balance sheet in order to support our long-term restaurant expansion plan with sufficient financial flexibility; to provide the financial resources necessary to protect and enhance the competitiveness of our restaurant and brewing operations; to provide our restaurant landlords with confidence as to our intent and ability to honor all of our financial obligations under our restaurant leases; and to provide a prudent level of financial capacity to manage the risks and uncertainties of conducting our business operations on a larger-scale. We obtain financial resources principally from our ongoing operations, supplemented by our cash balance on hand, employee stock option exercises and tenant improvement allowances from our landlords and our \$150 million Credit Facility. Additionally, in the past we have obtained capital resources from public stock offerings.

Our capital requirements are principally related to our restaurant expansion plans and restaurant enhancements and initiatives. While our ability to achieve our growth plans is dependent on a variety of factors, some of which are outside of our control, currently, our primary growth objective is to achieve an approximate 10% increase in total restaurant operating weeks on an annual basis over the next few years. For fiscal 2015, we plan to open at least 15 new restaurants. Depending on the expected level of future new restaurant development and expected tenant improvement allowances that we receive from our landlords, as well as our other planned capital investments including ongoing maintenance capital expenditures, our base of established restaurant operations may not generate enough cash flow from operations to totally fund our planned expansion over the long-term. We estimate the total domestic capacity for BJ's restaurants to be at least 425, given the size of our current restaurant prototype and the current structure of the BJ's concept and menu. Accordingly, we will continue to actively monitor overall conditions in the capital markets with respect to the potential sources and timing of additional financing for our planned future expansion, if necessary. However, there can be no assurance that such financing will be available when required or available on terms acceptable to us. If we are unable to secure additional capital resources, we may be required to reduce our long-term planned rate of expansion.

Similar to many restaurant chains, we typically utilize operating lease arrangements (principally ground leases) for the majority of our restaurant locations. We believe our operating lease arrangements continue to provide appropriate leverage for our capital structure in a financially efficient manner. However, we are not limited to the use of lease

arrangements as our only method of opening new restaurants and from time to time have purchased the underlying land for new restaurants. While our operating lease obligations are not currently required to be reflected as indebtedness on our Consolidated Balance Sheets, the minimum rents and other related lease obligations, such as common area expenses, under our lease agreements must be satisfied by cash flows from our ongoing operations. Accordingly, our lease arrangements reduce, to some extent, our capacity to utilize funded indebtedness in our capital structure.

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We typically seek to lease our restaurant locations for primary periods of 15 to 20 years under operating lease arrangements. Our rent structures vary from lease to lease, but generally provide for the payment of both minimum and contingent (percentage) rent based on sales, as well as other expenses related to the leases (for example, our pro-rata share of common area maintenance, property tax and insurance expenses). Many of our lease arrangements include the opportunity to secure tenant improvement allowances to partially offset the cost of developing and opening the related restaurants. Generally, landlords recover the cost of such allowances from increased minimum rents. However, there can be no assurance that such allowances will be available to us on each project. From time to time, we may also decide to purchase the underlying land for a new restaurant if that is the only way to secure a highly desirable site. Currently, we own the underlying land for five of our operating restaurants and two brewpub locations. It is not our current strategy to own a large number of land parcels that underlie our restaurants. Therefore, in many cases we subsequently enter into sale-leaseback arrangements for land parcels that we may purchase. We disburse cash for certain site-related work, buildings, leasehold improvements, furnishings, fixtures and equipment to build our leased and owned premises. We own substantially all of the equipment, furniture and trade fixtures in our restaurants and currently plan to do so in the future.

We also require capital resources to evolve, maintain and increase the productive capacity of our existing base of restaurants and brewery operations and to further expand and strengthen the capabilities of our corporate and information technology infrastructures. Our requirement for working capital is not significant since our restaurant customers pay for their food and beverage purchases in cash or credit cards at the time of the sale. Thus, we are able to sell many of our inventory items before we have to pay our suppliers for such items.

Our cash flows from operating activities, as detailed in the Consolidated Statements of Cash Flows, provided \$30.8 million during the thirteen weeks ended March 31, 2015, representing a \$1.4 million increase from the \$29.4 million provided by during the comparable thirteen week period of 2014. The increase in cash from operating activities for the thirteen weeks ended March 31, 2015, in comparison to the thirteen weeks ended April 1, 2014, is primarily due to the timing of accounts receivable and deferred lease incentives coupled with higher net income, offset by the timing of landlord contributions for tenant improvements, accrued expenses and deferred income taxes.

For the thirteen weeks ended March 31, 2015, total capital expenditures were approximately \$15.8 million, of which expenditures for the purchase of the underlying land for new restaurants as well as the acquisition of restaurant and brewery equipment and leasehold improvements to construct new restaurants were \$13.2 million. These expenditures were primarily related to the construction of our two new restaurants that opened during the thirteen weeks ended March 31, 2015, as well as expenditures related to restaurants expected to open later in fiscal 2015. In addition, total capital expenditures related to the maintenance and key productivity initiatives of existing restaurants and expenditures for restaurant and corporate systems were \$2.5 million and \$0.1 million, respectively.

We have a \$150 million unsecured revolving line of credit that expires on September 3, 2019, and may be used for working capital and other general corporate purposes. We utilize the Credit Facility principally for letters of credit that are required to support certain of our self-insurance programs, to fund a portion of the Company's announced stock repurchase program and for working capital and construction requirements as needed. Borrowings under the Credit Facility will bear interest at the Company's choice of either LIBOR plus a percentage not to exceed 1.75%, or at a rate ranging from Bank of America's publicly announced prime rate to 0.75% above Bank of America's prime rate, based on our level of lease and debt obligations as compared to EBITDA and lease expenses. As of March 31, 2015, there were borrowings of \$38.6 million outstanding under the Credit Facility and there were outstanding letters of credit totaling approximately \$14.0 million. The Credit Facility agreement also contains affirmative and negative covenants which restrict our ability to, among other things, create liens, borrow money (other trade credit and other ordinary course liabilities) and engage in mergers, consolidations, significant asset sales and certain other transactions. In addition, the Credit Facility contains provisions requiring us to maintain compliance with certain financial and

non-financial covenants, including a Fixed Charge Coverage Ratio and a Lease Adjusted Leverage Ratio which, if not met, would place additional customary restrictions on the Company, including the ability to redeem or repurchase stock or pay dividends. While we have the Credit Facility in place and it can be currently drawn upon, it is possible that creditors could place limitations or restrictions on our ability to borrow from the Credit Facility.

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Our capital expenditures during fiscal 2015 will continue to be significant as we currently plan to open at least 15 new restaurants and two 10,000 barrel brewpub locations in the state of Texas, which by July 1, 2015, will be supplying all of our Texas locations with BJ's proprietary beer, in addition to our necessary restaurant-level maintenance and key initiative-related capital expenditures. As of May 4, 2015, we have entered into 15 signed leases or land purchase agreements for new restaurant locations that we have already opened or expect to open in fiscal 2015 and fiscal 2016. We currently anticipate our total capital expenditures for fiscal 2015, including all expenditure categories, to be approximately \$100 million. We expect to fund our anticipated capital expenditures for fiscal 2015 with current cash balances on hand, expected cash flows from operations, proceeds from sale-leaseback transactions, expected tenant improvement allowances and our line of credit. Our future cash requirements will depend on many factors, including the pace of our expansion, conditions in the retail property development market, construction costs, the nature of the specific sites selected for new restaurants, and the nature of the specific leases and associated tenant improvement allowances available, if any, as negotiated with landlords.

From time to time, we will evaluate opportunities to acquire and convert other restaurant locations or entire restaurant chains to the BJ's restaurant concept. In the future we may consider joint venture arrangements to augment BJ's expansion into new markets or we may evaluate non-controlling investments in other emerging restaurant concepts that offer complementary growth opportunities to our BJ's restaurant operations. Currently, we have no binding commitments or agreements to acquire or convert any other restaurant locations or chains to our concept, or to enter into any joint ventures or non-controlling investments. However, we would likely require additional capital resources to take advantage of any of these growth opportunities should they become feasible.

We significantly depend on our expected cash flows from operations, coupled with agreed-upon landlord tenant improvement allowances and sale-leaseback proceeds, to fund the majority of our planned capital expenditures for 2015. If our business does not generate enough cash flows from operations as expected, if our landlords are unable to honor their agreements with us, or if we are unable to successfully enter in a sale-leaseback transaction and replacement funding sources are not otherwise available to us from borrowings under our Credit Facility or other alternatives, we may not be able to expand our operations at the pace currently planned.

The continued operation and expansion of our business will require substantial funding. Accordingly, we have not paid any dividends since our inception and have currently not allocated any funds for the payment of dividends. We have no plans to pay any cash dividends in the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon our financial condition, operating results and other factors our Board of Directors deems relevant. Our Credit Facility contains, and debt instruments that we enter into in the future may contain, covenants that place limitations on the amount of dividends we may pay.

In April 2014, our Board of Directors authorized a \$50 million share repurchase plan, which was subsequently increased to \$150 million in August 2014. We have cumulatively repurchased approximately \$107 million of this amount, of which approximately \$6.8 million was repurchased during the thirteen weeks ended March 31, 2015. The share repurchases were completed through open market purchases, and future share repurchases may be completed through the combination of individually negotiated transactions, accelerated share buyback, and/or open market purchases. As of March 31, 2015, we have approximately \$43.2 million available under our current share repurchase plan. Our Credit Facility does not contain any restrictions on the amount of borrowings that can be used to make stock repurchases as long as we are in compliance with our financial and non-financial covenants.

## **OFF-BALANCE SHEET ARRANGEMENTS**

We do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or variable interest entities ( VIEs ), which would have been

established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow limited purposes. As of March 31, 2015, we are not involved in any off-balance sheet arrangements.

## **IMPACT OF INFLATION**

Our profitability is dependent, among other things, on our ability to anticipate and react to changes in the costs of key operating resources, including food and other raw materials, labor, energy and other supplies and services. Substantial increases in costs and expenses could impact our operating results to the extent that such increases cannot be passed along to our restaurant customers. While we have taken steps to enter into agreements for some of the commodities used in our restaurant operations, there can be no assurance that future supplies and costs for such commodities will not fluctuate due to weather and other market conditions outside of our control. We are currently unable to contract for certain commodities, such as fluid dairy, fresh seafood and most fresh produce items, for long periods of time. Consequently, such commodities can be subject to unforeseen supply and cost fluctuations. The impact of inflation on food, labor, energy and occupancy costs can significantly affect the profitability of our restaurant operations.

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Many of our restaurant employees are paid hourly rates related to the federal, state or local minimum wage. Numerous state and local governments have their own minimum wage requirements that are generally greater than the federal minimum wage and are subject to annual increases based on changes in their local consumer price indices. Additionally, a general shortage in the availability of qualified restaurant management and hourly workers in certain geographical areas in which we operate has caused related increases in the costs of recruiting and compensating such employees. Certain operating and other costs, such as health benefits, the impact of the Patient Protection and Affordable Care Act, taxes, insurance and other outside services, continue to increase with the general level of inflation and may also be subject to other cost and supply fluctuations outside of our control.

While we have been able to partially offset inflation and other changes in the costs of key operating resources by gradually increasing prices of our menu items, coupled with more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no assurance that we will be able to continue to do so in the future. From time to time, competitive conditions will limit our menu pricing flexibility. In addition, macroeconomic conditions that impact consumer discretionary spending for food away from home could make additional menu price increases imprudent. There can be no assurance that all of our future cost increases can be offset by higher menu prices or that higher menu prices will be accepted by our restaurant customers without any resulting changes in their visit frequencies or purchasing patterns. Many of the leases for our restaurants provide for contingent rent obligations based on a percentage of sales. As a result, rent expense will absorb a proportionate share of any menu price increases in our restaurants. There can be no assurance that we will continue to generate increases in comparable restaurant sales in amounts sufficient to offset inflationary or other cost pressures.

## **SEASONALITY AND ADVERSE WEATHER**

Our business is subject to seasonal fluctuations. Additionally, our restaurants in the Midwest and Eastern states, including Florida, are impacted by weather and other seasonal factors that typically impact other restaurant operations in those regions. Holidays (and shifts in the holiday calendar), severe winter weather, hurricanes, tornados, thunderstorms and similar conditions may impact restaurant sales volumes seasonally in some of the markets where we operate. Many of our restaurants are located in or near shopping centers and malls that typically experience seasonal fluctuations in sales. Quarterly results have been and will continue to be significantly impacted by the timing of new restaurant openings and their associated restaurant opening expenses. As a result of these and other factors, our financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year.

## **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The following discussion of market risks contains forward-looking statements. Actual results may differ materially from the following discussion based on general conditions in the financial and commodity markets.

### ***Interest Rate Risk***

We have a \$150 million unsecured Credit Facility that carries interest at a floating rate. We utilize the Credit Facility principally for letters of credit that are required to support our self-insurance programs, to fund a portion of our announced stock repurchase program and for working capital and construction requirements, as needed. We are exposed to interest rate risk through fluctuations in interest rates on our obligations under the Credit Facility. We do not believe that a hypothetical 1% adverse change in the interest rates under our Credit Facility would have a material adverse impact on our results of operation or financial condition.

### ***Food and Commodity Price Risks***

We purchase food and other commodities for use in our operations based upon market prices established with our suppliers. Many of the commodities purchased by us can be subject to volatility due to market supply and demand factors outside of our control, whether contracted for or not. To manage this risk in part, we attempt to enter into fixed-price purchase commitments, with terms typically up to one year, for some of our commodity requirements. However, it may not be possible for us to enter into fixed-price contracts for certain commodities or we may choose not to enter into fixed-price contracts for certain commodities. Dairy costs can also fluctuate due to government regulation. We believe that substantially all of our food and supplies are available from several sources, which helps to diversify our overall commodity cost risk. We also believe that we have some flexibility and ability to increase certain menu prices, or vary certain menu items offered or promoted, in response to food commodity price increases. Some of our commodity purchase arrangements may contain contractual features that limit the price paid by establishing certain price floors or caps. We do not use financial instruments to hedge commodity prices, since our purchase arrangements with suppliers, to the extent that we can enter into such arrangements, help control the ultimate cost that we pay.

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**Item 4. CONTROLS AND PROCEDURES**

***Evaluation of Disclosure Controls and Procedures***

Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Rules 13a-15 and 15d-15 promulgated under the Securities Exchange Act of 1934 as amended, as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of March 31, 2015, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

***Changes in Internal Control Over Financial Reporting***

There has not been any change in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our first fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

See Note 8 of Notes to Unaudited Consolidated Financial Statements in Part I, Item 1 of this report for a summary of legal proceedings.

**Item 1A. RISK FACTORS**

A discussion of the significant risks associated with investments in our securities, as well as other matters, is set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 30, 2014. A summary of these risks and certain related information is included under "Statement Regarding Forward-Looking Disclosure" in Part I, Item 2 of this Form 10-Q and is incorporated herein by this reference. These cautionary statements are to be used as a reference in connection with any forward-looking statements. The factors, risks and uncertainties identified in these cautionary statements are in addition to those contained in any other cautionary statements, written or oral, which may be made or otherwise addressed in connection with a forward-looking statement or contained in any of our subsequent filings with the SEC. The risks described in this Form 10-Q and in our Annual Report on Form 10-K are not the only risks we face. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. There may be other risks and uncertainties that are not currently known or that are currently deemed by us to be immaterial; however, they may ultimately adversely affect our business, financial condition and/or operating results.

**Table of Contents****Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In April 2014, our Board of Directors authorized the repurchase of up to \$50 million of our common stock. In August 2014, the Board authorized an additional \$100 million increasing the total authorized repurchase to \$150 million of our common stock, of which approximately \$6.8 million was repurchased during the thirteen weeks ended March 31, 2015. The share repurchases may be completed through the combination of individually negotiated transactions, accelerated share buybacks, and/or open market purchases. As of March 31, 2015, we have approximately \$43.2 million available under our current share repurchase plan. The following table sets forth information with respect to repurchases of common shares made during the thirteen weeks ended March 31, 2015:

| Period (1) |          | Total<br>Number<br>of Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total<br>Number<br>of<br>Shares<br>Purchased<br>as Part of<br>the Publicly<br>Announced<br>Plans | Increase<br>in<br>Dollars<br>for<br>Share<br>Repurchase<br>Authorization | Approximate<br>Dollar Value<br>of Shares that<br>May Yet Be<br>Purchased<br>Under the<br>Plans or<br>Programs |
|------------|----------|-------------------------------------------|---------------------------------------|--------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|
| 12/31/14   | 01/27/15 | 4,927                                     | \$ 43.24                              | 4,927                                                                                            | \$                                                                       | \$ 49,786,967                                                                                                 |
| 01/28/15   | 02/24/15 | 14,169                                    | \$ 43.90                              | 14,169                                                                                           | \$                                                                       | \$ 49,165,290                                                                                                 |
| 02/25/15   | 03/31/15 | 114,261                                   | \$ 52.13                              | 114,261                                                                                          | \$                                                                       | \$ 43,225,912                                                                                                 |
| Total      |          | 133,357                                   | \$ 48.04                              | 133,357                                                                                          |                                                                          |                                                                                                               |

(1) Monthly information is presented by reference to our fiscal months during the thirteen weeks ended March 31, 2015.

**Item 6. EXHIBITS**

| Exhibit<br>Number | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
|-------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1               | Amended and Restated Articles of Incorporation of the Company, as amended, incorporated by reference to Exhibit 3.1 to the Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on June 28, 1996, as amended by the Company's Registration Statement on Form SB-2/A filed with the Commission on August 1, 1996, and the Company's Registration Statement on Form SB-2A filed with the Commission on August 22, 1996, (File No. 3335182-LA) (as amended, the Registration Statement). |
| 3.2               | Amended and Restated Bylaws of the Company, incorporated by reference to Exhibits 3.1 of the Form 8-K filed on June 4, 2007.                                                                                                                                                                                                                                                                                                                                                                                           |
| 3.3               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

## Edgar Filing: BJ's RESTAURANTS INC - Form 10-Q

|     |                                                                                                                                                                                                                                                                                                                                                                                                |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|     | Certificate of Amendment of Articles of Incorporation, incorporated by reference to Exhibit 3.3 of the Annual Report on Form 10-K for fiscal 2004.                                                                                                                                                                                                                                             |
| 3.4 | Certificate of Amendment of Articles of Incorporation, incorporated by reference to Exhibit 3.4 of the Annual Report on Form 10-K for fiscal 2010.                                                                                                                                                                                                                                             |
| 4.1 | Specimen Common Stock Certificate of the Company, incorporated by reference to Exhibit 4.1 of the Registration Statement.                                                                                                                                                                                                                                                                      |
| 31  | Section 302 Certification of Chief Executive Officer and Chief Financial Officer.                                                                                                                                                                                                                                                                                                              |
| 32  | Section 906 Certification of Chief Executive Officer and Chief Financial Officer.                                                                                                                                                                                                                                                                                                              |
| 101 | The following materials from BJ's Restaurants, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Unaudited Consolidated Statements of Income; (iii) Unaudited Consolidated Statements of Cash Flows; and (iv) Notes to Unaudited Consolidated Financial Statements. |

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**SIGNATURES**

In accordance with the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

May 4, 2015

BJ'S RESTAURANTS, INC.  
(Registrant)

By: /s/ GREGORY A. TROJAN  
Gregory A. Trojan  
President and Chief Executive Officer  
(Principal Executive Officer)

By: /s/ GREGORY S. LEVIN  
Gregory S. Levin  
Executive Vice President,  
Chief Financial Officer and Secretary  
(Principal Financial and Accounting Officer)