

BJs RESTAURANTS INC  
Form 10-Q  
May 07, 2018  
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 April 3, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-21423

BJ'S RESTAURANTS, INC.

(Exact name of registrant as specified in its charter)

California 33 0485615  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

7755 Center Avenue, Suite 300

Huntington Beach, California 92647

(714) 500-2400

Edgar Filing: BJs RESTAURANTS INC - Form 10-Q

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

Large accelerated filer	Accelerated filer
Non-accelerated filer (do not check if smaller reporting company)	Smaller reporting company
Emerging growth company	

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

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

As of May 4, 2018, there were 20,784,337 shares of Common Stock of the Registrant outstanding.

---

BJ'S RESTAURANTS, INC.

## TABLE OF CONTENTS

	Page	
PART I.	<u>FINANCIAL INFORMATION</u>	
Item 1.	<u>Consolidated Financial Statements</u>	
	<u>Consolidated Balance Sheets –</u> <u>April 3, 2018 (Unaudited) and</u> <u>January 2, 2018</u>	1
	<u>Unaudited Consolidated Statements</u> <u>of Income –</u> <u>Thirteen Weeks Ended April 3,</u> <u>2018 and April 4, 2017</u>	2
	<u>Unaudited Consolidated Statements</u> <u>of Cash Flows –</u> <u>Thirteen Weeks Ended April 3,</u> <u>2018 and April 4, 2017</u>	3
	<u>Notes to Unaudited Consolidated</u> <u>Financial Statements</u>	4
Item 2.	<u>Management's Discussion and</u> <u>Analysis of Financial Condition and</u> <u>Results of Operations</u>	10
Item 3.	<u>Quantitative and Qualitative</u> <u>Disclosures about Market Risk</u>	18
Item 4.	<u>Controls and Procedures</u>	19
PART II.	<u>OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u>	19
Item 1A.	<u>Risk Factors</u>	19
Item 2.	<u>Unregistered Sales of Equity</u> <u>Securities and Use of Proceeds</u>	19
Item 6.	<u>Exhibits</u>	20

SIGNATURES

21



## PART I. FINANCIAL INFORMATION

## Item 1. CONSOLIDATED FINANCIAL STATEMENTS

## BJ'S RESTAURANTS, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands)

	April 3, 2018 (unaudited)	January 2, 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 28,705	\$24,335
Accounts and other receivables, net	13,649	13,865
Inventories, net	10,160	10,514
Prepaid expenses and other current assets	11,677	11,615
Total current assets	64,191	60,329
Property and equipment, net	587,758	589,844
Goodwill	4,673	4,673
Other assets, net	30,375	30,112
Total assets	\$ 686,997	\$684,958
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable (1)	\$ 24,180	\$25,275
Accrued expenses	96,314	97,266
Total current liabilities	120,494	122,541
Deferred income taxes	19,204	21,694
Deferred rent	32,996	32,487
Deferred lease incentives	54,199	52,843
Long-term debt	158,500	163,500
Other liabilities	32,817	33,164
Total liabilities	418,210	426,229
<b>Commitments and contingencies</b>		

Edgar Filing: BJs RESTAURANTS INC - Form 10-Q

Shareholders' equity:

Preferred stock, 5,000 shares authorized, none issued or outstanding	—	—
Common stock, no par value, 125,000 shares authorized and 20,669		

and 20,485 shares issued and outstanding as of April 3, 2018 and

January 2, 2018, respectively	—	—
Capital surplus	67,088	68,904
Retained earnings	201,699	189,825
<b>Total shareholders' equity</b>	<b>268,787</b>	<b>258,729</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 686,997</b>	<b>\$684,958</b>

See accompanying notes to unaudited consolidated financial statements.

(1)Included in accounts payable as of April 3, 2018 and January 2, 2018 is \$4,450 and \$6,537, respectively, of related party trade payables. See Note 5 for further information.

1

## BJ'S RESTAURANTS, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	For the Thirteen Weeks Ended	
	April 3, 2018	April 4, 2017
Revenues	\$278,523	\$257,816
Restaurant operating costs (excluding depreciation and amortization):		
Cost of sales (1)	69,971	65,395
Labor and benefits	100,433	92,383
Occupancy and operating (1)	57,503	53,944
General and administrative	15,131	14,296
Depreciation and amortization	17,454	16,749
Restaurant opening	597	1,413
Loss on disposal and impairment of assets	1,061	687
Total costs and expenses	262,150	244,867
Income from operations	16,373	12,949
Other (expense) income:		
Interest expense, net	(1,387 )	(888 )
Other (expense) income, net	(100 )	785
Total other expense	(1,487 )	(103 )
Income before income taxes	14,886	12,846
Income tax expense	222	3,580
Net income	\$14,664	\$9,266
Net income per share:		
Basic	\$0.71	\$0.42
Diluted	\$0.70	\$0.42
Weighted average number of shares outstanding:		
Basic	20,586	21,932
Diluted	21,063	22,313
Cash dividends declared per common share	\$0.11	\$—

See accompanying notes to unaudited consolidated financial statements.

(1) Related party costs included in cost of sales are \$21,302 and \$20,077 for the thirteen weeks ended April 3, 2018 and April 4, 2017, respectively. Related party costs included in operating and occupancy are \$2,463 and \$2,279 for the thirteen weeks ended April 3, 2018 and April 4, 2017, respectively. See Note 5 for further information.





## BJ'S RESTAURANTS, INC.

## UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	For the Thirteen Weeks Ended	
	April 3, 2018	April 4, 2017
Cash flows from operating activities:		
Net income	\$14,664	\$9,266
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,454	16,749
Deferred income taxes	(2,490 )	1,614
Stock-based compensation expense	2,283	1,636
Loss on disposal and impairment of assets	1,061	687
Changes in assets and liabilities:		
Accounts and other receivables	2,977	2,493
Landlord contribution for tenant improvements	(2,637 )	(463 )
Inventories, net	354	(285 )
Prepaid expenses and other current assets	(397 )	562
Other assets, net	(604 )	(1,018 )
Accounts payable	(2,815 )	1,829
Accrued expenses	(5,614 )	(12,137 )
Deferred rent	509	614
Deferred lease incentives	1,356	(465 )
Other liabilities	(347 )	344
Net cash provided by operating activities	25,754	21,426
Cash flows from investing activities:		
Purchases of property and equipment	(14,064 )	(26,254 )
Net cash used in investing activities	(14,064 )	(26,254 )
Cash flows from financing activities:		
Borrowings on line of credit	485,500	528,400
Payments on line of credit	(490,500)	(493,700)
Taxes paid on vested stock units under employee plans	(365 )	(235 )
Proceeds from exercise of stock options	5,900	159
Cash dividends paid	(2,289 )	—
Repurchases of common stock	(5,566 )	(28,995 )
Net cash (used in) provided by financing activities	(7,320 )	5,629
Net increase in cash and cash equivalents	4,370	801
Cash and cash equivalents, beginning of period	24,335	22,761

Edgar Filing: BJs RESTAURANTS INC - Form 10-Q

Cash and cash equivalents, end of period	\$28,705	\$23,562
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	\$2,702	\$2,284
Cash paid for interest, net of capitalized interest	\$1,147	\$726
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment acquired and included in accounts payable	\$5,596	\$7,852
Stock-based compensation capitalized	\$93	\$66

See accompanying notes to unaudited consolidated financial statements.

3

---

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," "we," "us" and "our") and our wholly owned subsidiaries. The consolidated financial statements presented herein include all material adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of our financial condition, results of operations and cash flows for the period. Our consolidated financial statements and accompanying notes 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. Certain information and footnote disclosures normally included in consolidated financial statements in accordance with U.S. GAAP have been omitted pursuant to the U.S. Securities and Exchange Commission ("SEC") rules.

The preparation of financial statements in conformity 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 and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual amounts could differ from these estimates.

A description of our accounting policies and other financial information is included in our audited consolidated financial statements filed with the SEC on Form 10-K for the year ended January 2, 2018. The disclosures included in our accompanying interim consolidated financial statements and footnotes should be read in conjunction with our consolidated financial statements and notes thereto included in the Annual Report on Form 10-K and our other reports filed from time to time with the Securities and Exchange Commission.

Recently Issued Accounting Standards

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). This guidance requires the recognition of most leases on the balance sheet to give investors, lenders, and other financial statement users a more comprehensive view of a company's long-term financial obligations as well as the assets it owns versus leases. ASU 2016-02 will be effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. We will adopt ASU 2016-09 during the first quarter of fiscal 2019. Currently, all of our restaurant and our restaurant support center leases are accounted for as operating leases, and therefore are not recorded within our balance sheet. We expect this adoption will result in a material increase in the assets and liabilities on our consolidated balance sheets, but will likely have an insignificant impact on our consolidated statements of earnings. In preparation for the adoption of the guidance, we are implementing controls and key system changes to enable the preparation of financial information.

## Recently Adopted Accounting Standards

In April 2016, the FASB issued ASU 2016-10, an amendment to ASU 2014-09, Revenue from Contracts with Customers (“Topic 606”). ASU 2014-09 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 and expands related disclosure requirements. ASU 2016-10 clarified ASU 2014-09 to address the potential for diversity in practice at the adoption. The standard also requires gift card breakage to be recognized as revenue in proportion to the pattern of gift card redemptions exercised by our customers. ASUs 2016-10 and 2014-09 were effective for annual and interim reporting periods beginning after December 15, 2017 and were permitted to be applied retrospectively to each prior period presented or retrospectively with the cumulative adjustment to opening retained earnings as of the date of adoption (modified retrospective approach).

We adopted ASU 2016-10 on January 3, 2018, and elected the modified retrospective adoption method. As a result, we recorded a net cumulative adjustment of \$4.6 million to opening retained earnings. We now allocate loyalty member transaction amounts between the goods delivered and the future goods that will be delivered, on a relative standalone selling price basis. For the thirteen weeks ended April 3, 2018, approximately \$1.1 million of revenues have been deferred until those loyalty points are redeemed in the future and approximately \$0.6 million of gift card breakage has been recorded as revenues.

Under the previous standard, we estimated the cost of the loyalty reward based on the equivalent cost of the food and beverage earned and recorded this cost as a marketing expense included in “Occupancy and operating” on our Consolidated Statements of Income. Additionally, under the previous standard we recorded gift card breakage as other income included within “Other

(expense) income, net” on our Consolidated Statements of Income. ASU 2016-10 does not impact the calculation of our comparable restaurant sales or how we calculate gift card breakage.

## 2. REVENUE RECOGNITION

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 and the related estimated breakage is recorded and recognized in proportion to our historical redemption pattern. The estimate of gift card breakage is based on when the likelihood of redemption becomes remote, which has typically been 24 months after the original gift card issuance date.

We offer a “BJ’s Premier Rewards” customer loyalty program, which enables participants to earn points for qualifying purchases. We use loyalty points earned to allocate the transaction price between the goods delivered and the future goods that will be delivered, on a relative standalone selling price basis, and defer the related revenues until such points are redeemed in the future.

The liability related to our gift card and loyalty program, included in accrued expenses, on our Consolidated Balance Sheets is as follows (in thousands):

	April 3, 2018	January 2, 2018
Gift card liability	\$11,003	\$14,955
Deferred loyalty revenue (post-adoption of ASU 2016-10)	\$10,246	\$—
Customer loyalty revenue (pre-adoption of ASU 2016-10)	\$—	\$3,080

Revenue recognized on our Consolidated Statements of Income for the redemption of gift cards and loyalty rewards is as follows (in thousands):

	For the Thirteen Weeks Ended	
	April 3, 2018	April 4, 2017
Revenue recognized from gift card liability	\$5,932	\$4,746 (1)
Revenue recognized from deferred liability for loyalty	\$2,331	\$— (2)

- (1) Prior to the adoption of ASU 2016-10, gift card breakage was recorded as other income and included within “Other (expense) income, net” on our Consolidated Statements of Income and therefore not recognized as revenue.
- (2) Prior to the adoption of ASU 2016-10, loyalty rewards were recorded as marketing expense and included in “Occupancy and operating” on our Consolidated Statements of Income.

### 3. LONG-TERM DEBT

#### Line of Credit

Our Credit Facility, which matures on November 18, 2021, provides us with revolving loan commitments totaling \$250 million, of which \$50 million may be used for the issuance 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. Our obligations under the Credit Facility are unsecured. As of April 3, 2018, there were borrowings of \$158.5 million and letters of credit totaling approximately \$14.5 million outstanding under the Credit Facility. Available borrowings under the Credit Facility were \$77.0 million as of April 3, 2018. The Credit Facility bears interest at our choice of LIBOR plus a percentage not to exceed 1.75%, or at a rate ranging from Bank of America’s 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 plus lease expenses. The weighted average interest rate during the thirteen weeks ended April 3, 2018 was approximately 2.0%.

The Credit Facility contains provisions requiring us to maintain compliance with certain covenants, including a Fixed Charge Coverage Ratio and a Lease Adjusted Leverage Ratio. At April 3, 2018, we were in compliance with these covenants.

Interest expense and commitment fees under the Credit Facility for the thirteen weeks ended April 3, 2018 and April 4, 2017 were approximately \$1.4 million and \$0.9 million, respectively. We also capitalized approximately \$0.03 million and \$0.04 million of interest expense related to new restaurant construction during the thirteen weeks ended April 3, 2018 and April 4, 2017, respectively.

#### 4. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income 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 in-the-money 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 income per share computation because the performance-based criteria have not yet been met.

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

	For the Thirteen Weeks Ended	
	April 3, 2018	April 4, 2017
Numerator:		
Net income	\$ 14,664	\$ 9,266
Denominator:		
Weighted-average shares outstanding – basic	20,586	21,932
Dilutive effect of equity awards	477	381
Weighted-average shares outstanding – diluted	21,063	22,313

For the thirteen weeks ended April 3, 2018 and April 4, 2017, there were approximately 0.6 million and 0.5 million shares of common stock equivalents, respectively, that were excluded from the calculation of diluted net income per share because they are anti-dilutive.

#### 5. RELATED PARTY

James Dal Pozzo, the Chairman of the Board of the Jacmar Companies (“Jacmar”), is a member of our Board of Directors. Jacmar, through its affiliation with Distribution Market Advantage (“DMA”), a consortium of large, regional food distributors located throughout the United States, is currently our largest distributor of food, beverage, paper products and supplies. In 2006, we began using DMA to deliver the majority of our food products to our restaurants. In July 2017, after conducting a market evaluation, we entered into a new five-year agreement with DMA. The new agreement expires in June 2022.

Jacmar services our restaurants in California and Nevada, while other DMA distributors service our restaurants in all other states. Under the terms of our agreement with DMA, Jacmar is required to sell products to us at the same prices as the other DMA distributors. Jacmar does not provide us with any produce, liquor, wine or beer products, all of which are provided by other third party vendors and are included in “Cost of sales” on the Consolidated Statements of Income.

Edgar Filing: BJs RESTAURANTS INC - Form 10-Q

The cost of food, beverage, paper products and supplies provided by Jacmar included within cost of sales and occupancy and operating expenses consisted of the following (in thousands):

	For the Thirteen Weeks Ended			
	April 3, 2018		April 4, 2017	
<b>Cost of sales:</b>				
Third party suppliers	\$48,669	69.6 %	\$45,318	69.3 %
Jacmar	21,302	30.4	20,077	30.7
Total cost of sales	\$69,971	100.0%	\$65,395	100.0%
<b>Occupancy and operating:</b>				
Third party suppliers	\$55,040	95.7 %	\$51,665	95.8 %
Jacmar	2,463	4.3	2,279	4.2
Total occupancy and operating	\$57,503	100.0%	\$53,944	100.0%



The amounts included in trade payables related to Jacmar consisted of the following (in thousands):

	April 3, 2018	January 2, 2018
Third party suppliers	\$19,730	\$18,738
Jacmar	4,450	6,537
Total accounts payable	\$24,180	\$25,275

## 6. STOCK-BASED COMPENSATION

Our current shareholder approved stock-based compensation plan is the 2005 Equity Incentive Plan (as amended from time to time, “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 performance and time-based restricted stock units. Stock options and stock appreciation rights, if any, are charged against the Plan share reserve on the basis of one share for each share granted. Other types of grants, including restricted stock units (“RSUs”), are currently charged against the Plan share reserve on the basis of 1.5 shares for each share granted. The Plan also contains other limits on the terms of incentive grants such as limits on the number 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 non-qualified stock options as well as time-based and performance-based RSUs to vice presidents and above. We issue time-based RSUs and/or non-qualified stock options to other support employees. We also issue RSUs and non-qualified stock options in connection with the BJ’s Gold Standard Stock Ownership Program (the “GSSOP”). The GSSOP is a long-term equity incentive program for our restaurant general managers, executive kitchen managers, directors of operations and directors of kitchen operations. GSSOP grants are dependent on the length of each participant’s service with us and position. All GSSOP participants are required to remain in good standing during their service period.

The Plan permits us to set the vesting terms and exercise period for awards at our discretion. Stock options and time-based RSUs vest ratably over three or five years for non-GSSOP participants and either cliff vest at five years or cliff vest at 33% on the third anniversary and 67% on the fifth anniversary for GSSOP participants.

Performance-based RSUs generally cliff vest on the third anniversary of the grant date in an amount from 0% to 150% of the grant quantity, dependent on the level of performance target achievement.

The following table presents the stock-based compensation recognized within our consolidated financial statements (in thousands):

	For the Thirteen Weeks Ended	
	April 3, 2018	April 4, 2017
Labor and benefits	\$578	\$468
General and administrative	\$1,705	\$1,168
Capitalized (1)	\$93	\$66

(1) Capitalized stock-based compensation relates to our restaurant development personnel and is included in “Property and equipment, net” on the Consolidated Balance Sheets.

Stock Options

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

	For the Thirteen Weeks Ended	
	April 3, 2018	April 4, 2017
Expected volatility	33.6 %	34.7 %
Risk free interest rate	2.3 %	1.9 %
Expected option life	5 years	5 years
Dividend yield	1.5 %	0 %
Fair value of options granted	\$10.75	\$12.03

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, and dividend yield. These estimations and judgments are

determined by us using assumptions 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 fair value of future grants, resulting in a significant impact to our financial results.

The exercise price of our stock options under our stock-based compensation plan is required to equal or exceed the market close fair value of our shares on the option grant date or the most recent trading day when grants take place on market holidays. The following table presents stock option activity:

	Options Outstanding		Options Exercisable	
	Weighted		Weighted	
	Average		Average	
	Shares	Exercise Price	Shares	Exercise Price
	(in thousands)		(in thousands)	
Outstanding at January 2, 2018	1,311	\$ 32.68	926	\$ 30.02
Granted	175	37.70		
Exercised	(283 )	20.85		
Forfeited	(7 )	42.39		
Outstanding at April 3, 2018	1,196	\$ 36.15	772	\$ 34.88

As of April 3, 2018, total unrecognized stock-based compensation expense related to non-vested stock options was approximately \$4.1 million, which is generally expected to be recognized over the next five years.

#### Restricted Stock Units

##### Time-Based Restricted Stock Units

The following table presents time-based restricted stock unit activity:

	Shares	Weighted Average
	(in thousands) Fair Value	
Outstanding at January 2, 2018	500	\$ 37.72
Granted	85	37.70
Vested or released	(52 )	37.96
Forfeited	(12 )	36.91
Outstanding at April 3, 2018	521	\$ 37.70

The fair value of our time-based RSUs is equal to the fair value of our common stock at market close on the date of grant or the most recent trading day when grants take place on market holidays. The fair value of each time-based RSU is expensed over the vesting period (e.g., three or five years). As of April 3, 2018, total unrecognized stock-based compensation expense related to non-vested RSUs was approximately \$10.4 million, which is generally expected to be recognized over the next five years.

#### Performance-Based Restricted Stock Units

The following table presents performance-based restricted stock unit activity:

	Shares	Weighted Average Fair Value
	(in thousands)	
Outstanding at January 2, 2018	68	\$ 38.68
Granted	39	37.70
Vested or released	—	—
Forfeited	—	—
Outstanding at April 3, 2018	107	\$ 38.32

The fair value of our performance-based RSUs is equal to the fair value of our common stock at market close on the date of grant or the most recent trading day when grants take place on market holidays. The fair value of each performance-based RSU

is expensed based on management's current estimate of the level that the performance goal will be achieved. As of April 3, 2018, based on the target level of performance, the total unrecognized stock-based compensation expense related to non-vested performance-based RSUs was approximately \$2.2 million, which is generally expected to be recognized over the next three years.

## 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. The effect of changes in enacted tax laws, rates or tax status is recognized in the interim period in which the change is effective. 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.

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law substantially amending the Internal Revenue Code of 1986. The TCJA made significant changes to the taxation of corporations such as the reduction of the highest corporate marginal tax rate from 35% to 21%, additional limitations on certain deductions for executive compensation, introducing an additional capital investment deduction, modifying rules for the deduction of interest expense, and modifying the rules regarding the utilization of net operating loss carryforwards. All relevant tax law changes have been and will be incorporated into this and subsequent interim provision calculations. We have reviewed and will continue to monitor the impact that this legislation will have on our business, as there is still some uncertainty around specific items, such as the grandfathering provisions relating to the executive compensation deduction limitations.

As of April 3, 2018, we had unrecognized tax benefits of approximately \$1.5 million, of which approximately \$1.1 million, if reversed, would impact our effective tax rate.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is the following (in thousands):

	For the Thirteen Weeks Ended	
	April 3, 2018	April 4, 2017
Gross unrecognized tax benefits at beginning of year	\$1,516	\$1,245
Decreases for tax positions taken in prior years	—	(1 )
Increases for tax positions taken in the current year	22	33
Gross unrecognized tax benefits at end of year	\$1,538	\$1,277

Our uncertain tax positions are related to tax years that remain subject to examination by tax agencies. As of April 3, 2018, the earliest tax year still subject to examination by the Internal Revenue Service is 2014. The earliest year still subject to examination by a significant state or local taxing jurisdiction is 2013.

## 8. LEGAL PROCEEDINGS

We are subject to 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, our employee workers' compensation and our employment practice requirements. We maintain coverage with a third party insurer to limit our total exposure. 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. SHAREHOLDERS' EQUITY

### Stock Repurchases

During the thirteen weeks ended April 3, 2018, we repurchased and retired approximately 0.1 million shares of our common stock at an average price of \$41.35 per share for a total of \$5.6 million, which is recorded as a reduction in common stock, with any excess charged to retained earnings. In March 2017, the Company's Board of Directors approved an expansion of the authorized share repurchase program by \$50 million to \$400 million in the aggregate. As of April 3, 2018, approximately \$37.0 million remains available for additional repurchases under our share repurchase program.

### Cash Dividends

On February 20, 2018, our Board of Directors authorized and declared a quarterly cash dividend of \$0.11 per share of common stock payable on March 27, 2018, to shareholders of record at the close of business on March 13, 2018. While we intend to pay quarterly cash dividends, any future decisions to pay, increase or decrease cash dividends will be reviewed quarterly and declared by the Board of Directors at its discretion. 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.

## 10. SUBSEQUENT EVENTS

On April 24, 2018, our Board of Directors authorized and declared a quarterly cash dividend of \$0.11 per share of common stock payable on May 28, 2018, to shareholders of record at the close of business on May 14, 2018. While we intend to pay regular quarterly cash dividends in future periods, any decisions to pay or to increase or decrease cash dividends will be reviewed quarterly and declared by the Board of Directors at its discretion.

## 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 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 may contain "forward-looking" statements about our current and expected performance trends, growth plans, business goals and other matters. 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 used 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, our Annual Report on Form 10-K for the fiscal year ended

January 2, 2018, and our other reports filed from time to time with the Securities and Exchange Commission. 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 January 2, 2018, 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. 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.

“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 future restaurant development;
- the total domestic capacity for our restaurants;

10

---



dates on which we will commence or complete the development and opening of new restaurants;  
expectations for consumer spending on casual dining restaurant occasions;  
the availability and cost of key commodities used in our restaurants and brewing operations;  
menu price increases and their effect, if any, on revenue and results of operations;  
the effectiveness of our planned operational, menu, marketing and capital expenditure initiatives;  
capital requirement expectations and actual or available borrowings on our line of credit;  
projected revenues, operating costs and expenses;  
projected share repurchases or shareholder dividend frequency and amount; 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 may cause actual events or results to differ materially from those expressed or implied by the statements. Significant factors that may prevent us from achieving our stated goals include, but are not limited to:

- Failure to maintain a favorable image, credibility and the value of the BJ's brand and our reputation for offering customers a higher quality more differentiated total dining experience at a good value may adversely affect our business.
- Any inability or failure to recognize, respond to and effectively manage the accelerated impact of social media may adversely affect our business.
- Any deterioration in general economic conditions may affect consumer spending and adversely affect our revenues, operating results and liquidity.
- Any deterioration in general economic conditions, which may also have a material adverse impact on our landlords or on businesses neighboring our locations, may adversely affect our revenues and results of operations.
- Any inability to open new restaurants on schedule in accordance with our targeted capacity growth or problems associated with securing suitable restaurant locations, leases and licenses, recruiting and training qualified managers and hourly employees and other factors, some of which are beyond our control and difficult to forecast accurately may adversely affect our operation.
- Any inability to access sources of capital and or to raise capital in the future may adversely affect our business.
- Any failure of our existing or new restaurants to achieve expected results may have a negative impact on our consolidated financial results.
- Any strain on our infrastructure and resources due to growth, which may slow our development of new restaurants may 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.
- Expenditures required to open new restaurants may adversely affect our future operating results.
- Our concentration of a significant number of our restaurants in California, Texas and Florida makes us particularly sensitive to economic, regulatory, weather and other risk factors and conditions that are more prevalent in those states.
- Any negative publicity about us, our restaurants, other restaurants, or others across the food supply chain, due to food borne illness or other reasons, whether or not accurate may adversely affect the reputation and popularity of our restaurants and our results of operations.
- Any adverse changes in the cost of food, labor and related employee benefits (including, but not limited to, group health insurance coverage for our employees), brewing and energy may adversely affect our operating results.
- Any inability of our internal or independent third party brewers to timely supply our beer may adversely affect our operating results.



Periodic reviews and audits of our internal brewing, independent third party brewing and beer distribution arrangements by various federal, state and local governmental and regulatory agencies may adversely affect our operations and our operating results.

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, federal or state exemption rules, health insurance coverage, or other employment benefits such as paid time off, consumer health and safety, nutritional disclosures, and employment eligibility-related documentation requirements may cause disruptions to our operations, adversely affect our operating costs and restrict our growth.

Heavy dependence of our operations, including our loyalty and employee engagement programs, on information technology may adversely affect our revenues and impair our ability to efficiently operate our business if there is a material failure of such technology.

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 may affect the market price and volatility of our securities.

Any suspension of or failure to pay regular dividends or to repurchase the Company's stock up to the maximum amounts permitted under our previously announced repurchase program, either of which may negatively impact investor perceptions of us and may 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 our Annual Report on Form 10-K for the fiscal year ended January 2, 2018.

## GENERAL

As of May 7, 2018, we owned and operated 198 restaurants located in the 27 states of Alabama, Arizona, Arkansas, California, Colorado, Florida, Indiana, Kansas, Kentucky, Louisiana, Maryland, Michigan, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia and Washington. Each of our restaurants is operated either as a BJ's Restaurant & Brewhouse®, a BJ's Restaurant & Brewery®, a BJ's Pizza & Grill®, or a BJ's Grill® restaurant. Currently, the BJ's Restaurant & Brewhouse® format represents the majority of our restaurants and is our primary expansion vehicle. Our BJ's Restaurant & Brewery locations are similar in size to our BJ's Restaurant & Brewhouse locations, except that they have brewing operations attached to the restaurant. Our BJ's Pizza & Grill® restaurants are smaller format, full-service restaurants which reflect the original format of the BJ's restaurant concept that was first introduced in 1978. Our BJ's Grill® restaurant is a slightly smaller footprint restaurant than our BJ's Restaurant & Brewhouse® format, but still features all the amenities of our Brewhouse locations. Our proprietary craft beer is available in all of our restaurants and produced at several of our BJ's Restaurant & Brewery® locations, our Temple, Texas brewpub locations and by independent third party brewers using our proprietary recipes.

The first BJ's restaurant opened in 1978 in Orange County, California, featuring Chicago style deep-dish pizza with a unique California twist. Over the years we expanded the BJ's concept from its beginnings as a small pizzeria to a full-service, high energy casual dining restaurant with a broad menu including our BJ's award winning, signature deep-dish pizza, our proprietary craft and other beers, as well as a large selection of appetizers, entrées, pastas, burgers and sandwiches, specialty salads and desserts, including our made to order, warm pizza cookie dessert, the Pizookie®.

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 and the related breakage is recorded and recognized when the likelihood of redemption becomes remote, which is typically after 24 months from the original gift card issuance date. We use loyalty points earned to allocate the transaction price between the goods delivered and the future goods that will be delivered, on a relative standalone

selling price basis, and defer the related revenues until such points are redeemed in the future.

All of our restaurants are Company-owned. In calculating comparable 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, but may be

12

---

impacted by changes in commodity prices, a shift in sales mix to higher cost proteins or other higher cost items, or varying levels of promotional activities.

Labor and benefit costs include direct hourly and management wages, bonuses, payroll taxes, fringe benefits and stock-based compensation and workers' compensation expense that is directly related to restaurant level employees.

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 are composed primarily of depreciation of capital expenditures for restaurant and brewing equipment and leasehold improvements.

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 stock 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 obtain a new lease that is satisfactory to our landlord and us or that, if renewed, rents will not increase substantially.

## RESULTS OF OPERATIONS

The following table provides, 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 April 3, 2018, are not necessarily indicative of the results to be expected for the full fiscal year. Percentages below may not reconcile due to rounding.

	For the Thirteen Weeks Ended	
	April 3, 2018	April 4, 2017
Revenues	100.0%	100.0%
Restaurant operating costs (excluding depreciation and amortization):		
Cost of sales	25.1	25.4
Labor and benefits	36.1	35.8

Edgar Filing: BJs RESTAURANTS INC - Form 10-Q

Occupancy and operating	20.6	20.9		
General and administrative	5.4	5.5		
Depreciation and amortization	6.3	6.5		
Restaurant opening	0.2	0.5		
Loss on disposal of assets and impairments	0.4	0.3		
Total costs and expenses	94.1	95.0		
Income from operations	5.9	5.0		
Other (expense) income:				
Interest expense, net	(0.5 )	(0.3 )		
Other income, net	—	0.3		
Total other expense	(0.5 )	—		
Income before income taxes	5.3	5.0		
Income tax expense	0.1	1.4		
Net income	5.3	%	3.6	%

13

---

## Thirteen Weeks Ended April 3, 2018 Compared to Thirteen Weeks Ended April 4, 2017

**Revenues.** Total revenues increased by \$20.7 million, or 8.0%, to \$278.5 million during the thirteen weeks ended April 3, 2018, from \$257.8 million during the comparable thirteen week period of 2017. The increase in revenues primarily consisted of an \$11.0 million increase in sales from new restaurants not yet in our comparable restaurant sales base, a 4.2%, or \$10.2 million, increase in comparable restaurant sales and \$0.6 million in gift card breakage revenue, offset by \$1.1 million of revenues which have been deferred until the related loyalty points are redeemed in accordance with ASU 2016-10, which was adopted during the current quarter. The increase in comparable restaurant sales resulted from an increase in average check of approximately 3.8%, coupled with an increase in customer traffic of approximately 0.4%.

**Cost of Sales.** Cost of sales increased by \$4.6 million, or 7.0%, to \$70.0 million during the thirteen weeks ended April 3, 2018, from \$65.4 million during the comparable thirteen week period of 2017. This increase was primarily due to the opening of eight new restaurants since the thirteen weeks ended April 4, 2017. As a percentage of revenues, cost of sales decreased to 25.1% for the current thirteen week period from 25.4% for the prior year comparable period. This percentage decrease is primarily due to menu pricing and less discounting compared to prior year.

**Labor and Benefits.** Labor and benefit costs for our restaurants increased by \$8.1 million, or 8.7%, to \$100.4 million during the thirteen weeks ended April 3, 2018, from \$92.4 million during the comparable thirteen week period of 2017. This increase was primarily due to the opening of eight new restaurants since the thirteen weeks ended April 4, 2017. As a percentage of revenues, labor and benefit costs increased to 36.1% for the current thirteen week period from 35.8% for the prior year comparable period. This percentage increase is primarily due to higher restaurant incentive compensation coupled with higher workers compensation costs. Included in labor and benefits for the thirteen weeks ended April 3, 2018 and April 4, 2017, was approximately \$0.6 million and \$0.5 million, or 0.2% of revenues, 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 \$3.6 million, or 6.6%, to \$57.5 million during the thirteen weeks ended April 3, 2018, from \$53.9 million during the comparable thirteen week period of 2017. This increase was primarily due to the opening of eight new restaurants since the thirteen weeks ended April 4, 2017. As a percentage of revenues, occupancy and operating expenses decreased to 20.6% for the current thirteen week period from 20.9% for the prior year comparable period. This percentage decrease was primarily due to our ability to leverage the fixed component of these expenses resulting from comparable restaurant sales increases.

**General and Administrative.** General and administrative expenses increased by \$0.8 million, or 5.8%, to \$15.1 million during the thirteen weeks ended April 3, 2018, from \$14.3 million during the comparable thirteen week period of 2017. Also included in general and administrative costs for the thirteen weeks ended April 3, 2018 and April 4, 2017, was approximately \$1.7 million and \$1.2 million, or 0.6% and 0.5% of revenues, of stock-based compensation expense, respectively. As a percentage of revenues, general and administrative expenses slightly decreased to 5.4% for the current thirteen week period from 5.5% for the prior year comparable 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 increase.

**Depreciation and Amortization.** Depreciation and amortization increased by \$0.7 million, or 4.2%, to \$17.5 million during the thirteen weeks ended April 3, 2018, compared to \$16.7 million during the comparable thirteen week period of 2017. This increase was primarily due to depreciation expense related to the eight new restaurants opened since the thirteen weeks ended April 4, 2017. As a percentage of revenues, depreciation and amortization decreased to 6.3% for the current thirteen week period from 6.5% for the prior year comparable 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 increase.

**Restaurant Opening.** Restaurant opening expense decreased by \$0.8 million, or 57.7%, to \$0.6 million during the thirteen weeks ended April 3, 2018, compared to \$1.4 million during the comparable thirteen week period of 2017. This decrease was due to the opening of one new restaurant during the thirteen weeks ended April 3, 2018, compared to three new restaurants during the comparable thirteen week period of 2017.

**Loss on Disposal and Impairment of Assets.** Loss on disposal and impairment of assets increased by \$0.4 million, or 54.4%, to \$1.1 million during the thirteen weeks ended April 3, 2018, compared to \$0.7 million during the comparable thirteen week period of 2017. These costs primarily related to the disposal of certain unproductive restaurant assets.



**Interest Expense, Net.** Interest expense, net increased by \$0.5 million to \$1.4 million during the thirteen weeks ended April 3, 2018, compared to \$0.9 million during the comparable thirteen week period of 2017. This increase was due to higher interest rates coupled with a greater weighted average debt balance during the thirteen weeks ended April 3, 2018, compared to the comparable thirteen week period of 2017.

**Other Expense, Net.** Other expense, net increased by \$0.9 million to \$0.1 million during the thirteen weeks ended April 3, 2018, compared to other income of \$0.8 million during the comparable thirteen week period of 2017. This increase was primarily due to the adoption of ASU 2016-10 and the reclassification of gift card breakage to revenues.

**Income Tax (Benefit) Expense.** Our effective income tax rate for the thirteen weeks ended April 3, 2018, was 1.5% compared to 27.9% for the comparable thirteen week period of 2017. This decrease in our effective tax rate was primarily due to a \$1.1 million excess tax benefit from equity awards, coupled with lower federal tax rates resulting from the 2017 Tax Cut and Jobs Act. The effective income tax rate for the thirteen weeks ended April 3, 2018, differed from the statutory income tax rate primarily due to tax credits and an excess tax benefit from equity awards.

## LIQUIDITY AND CAPITAL RESOURCES

The following tables provide, for the periods indicated, a summary of our key liquidity measurements (dollars in thousands):

	April 3, 2018	January 2, 2018
Cash and cash equivalents	\$28,705	\$24,335
Net working capital	\$(56,303)	\$(62,212)
Current ratio	0.5:1.0	0.5:1.0

Our capital requirements are driven by our fundamental financial objective to improve total shareholder return through a balanced approach of new restaurant expansion plans, enhancements and initiatives on existing restaurants, and return of capital to our shareholders through our share repurchase program and dividends. In addition, we want to maintain a flexible balance sheet to provide the financial resources necessary to manage the risks and uncertainties of conducting our business operations in a mature segment of the restaurant industry. In order to achieve these objectives, we use a combination of operating cash flows, funded debt and landlord allowances.

We currently 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. We expect to fund our growth plans using cash from our ongoing operations, our cash balance on hand, proceeds from employee stock option exercises, tenant improvement allowances from our landlords and our \$250 million Credit Facility. Depending on the expected level of new restaurant development, tenant improvement allowances that we receive from our landlords, other planned capital investments including ongoing maintenance capital expenditures, and results from our ongoing operations, we may not generate enough cash flow from operations to completely fund our plans. In addition, share repurchases and our quarterly cash dividend or any significant increases in such repurchases or dividends may impact our available capital resources. Accordingly, we continue to actively monitor overall conditions in the capital and credit markets with respect to the potential sources and the timing of additional financing in order to enhance total shareholder return. 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, when needed, we may be required to reduce our planned rate of expansion, share repurchases, quarterly cash dividends or other shareholder return initiatives.

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 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 currently are not 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 debt in our capital structure.

We typically lease our restaurant locations for periods of 10 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 two of our operating restaurants and our Texas brewpub locations. We also own two parcels of land adjacent to two of our operating restaurants. 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 brewing 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 are required to pay our suppliers for such items.

## CASH FLOWS

The following tables set forth, for the years indicated, our cash flows from operating, investing, and financing activities (in thousands):

	For the Thirteen Weeks Ended	
	April 3, 2018	April 4, 2017
Cash provided by operating activities	\$25,754	\$21,426
Net cash used in investing activities	(14,064)	(26,254)
Net cash (used in) provided by financing activities	(7,320)	5,629
Net increase in cash and cash equivalents	\$4,370	\$801

### Operating Cash Flows

Net cash provided by operating activities was \$25.8 million during the thirteen weeks ended April 3, 2018, representing a \$4.3 million increase from the \$21.4 million provided during the thirteen weeks ended April 4, 2017. The increase in cash from operating activities for the thirteen weeks ended April 3, 2018, in comparison the thirteen weeks ended April 4, 2017, is primarily due to the timing of accounts payable and accrued expenses, coupled with higher net income, offset by the decrease in our net deferred income tax liability resulting from the revaluation of our deferred tax liability under the 2017 Tax Cut and Jobs Act.

### Investing Cash Flows

Net cash used in investing activities was \$14.1 million during the thirteen weeks ended April 3, 2018, representing a \$12.2 million decrease from the \$26.3 million used during the thirteen weeks ended April 4, 2017. The decrease over prior year is primarily due to fewer new restaurant openings and less key productivity initiative capital expenditures.

The following table provides, for the years indicated, the components of capital expenditures (in thousands):

	For the Thirteen Weeks Ended	
	April 3, 2018	April 4, 2017
New restaurants	\$8,542	\$12,569
Restaurant maintenance and key productivity initiatives	5,409	13,136
Restaurant and corporate systems	113	549
Total capital expenditures	\$14,064	\$26,254

We expect to open five to six new restaurants in fiscal 2018, and we have entered into signed leases, land purchase agreements or letters of intent for all of our potential 2018 restaurant locations. While we expect our capital expenditures to remain significant, the reduction of restaurant openings in fiscal 2018 will reduce our capital expenditure spend as compared to fiscal 2017. Our reduced pace of expansion will generate increased free cash flow and provide added financial flexibility. It will also allow us to allocate greater resources to our core base of established restaurants to improve sales and profitability. While our new restaurant unit economics remain solid and warrant continued capital allocation, we will continue to balance this new restaurant growth with our commitment to drive shareholder returns through our share repurchases program and quarterly cash dividends.

We currently anticipate our total capital expenditures for fiscal 2018, including all expenditure categories, to be approximately \$50 million to \$55 million. We expect to fund our anticipated capital expenditures for fiscal 2018 with our current cash balance 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.

#### Financing Cash Flows

Net cash used in financing activities was \$7.3 million during the thirteen weeks ended April 3, 2018, representing a \$12.9 million increase from the \$5.6 million provided by during the thirteen weeks ended April 4, 2017. The increase in cash used over prior year is primarily due to less borrowings during the thirteen weeks ended April 3, 2018.

We have a \$250 million unsecured revolving line of credit that expires on November 18, 2021, 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 our stock repurchase program and quarterly cash dividend and for working capital and construction requirements. While we intend to pay regular quarterly cash dividends in the future, any decisions to pay, increase or decrease cash dividends will be reviewed quarterly and declared by the Board of Directors at its discretion. 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.

As of April 3, 2018, we have cumulatively repurchased shares valued at approximately \$363.0 million in accordance with our approved share repurchase plan. We repurchased shares valued at approximately \$5.6 million during the thirteen weeks ended April 3, 2018. The share repurchases were executed 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 April 3, 2018, we have approximately \$37.0 million available under our share repurchase plan. Our Credit Facility does not contain any restrictions on the amount of borrowings that can be used to make share 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 April 3, 2018, we are not involved in any off-balance sheet arrangements.

#### IMPACT OF INFLATION

Inflation on food, labor, energy and occupancy costs can significantly affect the profitability of our restaurant operations. Our profitability is dependent, among other things, on our ability to anticipate and react to changes in the cost 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 or 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.

Many of our restaurant employees are paid hourly rates subject to the federal, state or local minimum wage requirements. 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 geographic areas in which we operate has caused increases in the costs of recruiting and compensating such employees. Certain operating and other costs, including health benefits in compliance with the Patient Protection and Affordable Care Act, taxes, insurance, federal and state exemption rules, and regulatory requirements relating to employees 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 impacted by weather and other seasonal factors that typically impact other restaurant operations. Holidays (and shifts in the holiday calendar) and severe weather including hurricanes, tornados, thunderstorms and similar conditions may impact restaurant sales volumes 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.

#### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with U.S. GAAP requires us to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of net revenues and expenses in the reporting period. We base our estimates and assumptions on current facts, historical experience and various other factors that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the accrual of costs and expenses that are not readily apparent from other sources. We continually review the estimates and underlying assumptions to ensure they are appropriate for the circumstances. Accounting assumptions and estimates are inherently uncertain and actual results may differ materially from our estimates.

A summary of our critical accounting policies included in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended January 2, 2018. During the thirteen weeks ended April 3, 2018, there were no significant changes in our critical accounting policies, other than the adoption of ASU 2016-10 as discussed in Note 1, Recently Adopted Accounting Standards, and Note 2, Revenue Recognition, in the Notes to Unaudited Consolidated Financial Statements.

#### 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 \$250 million unsecured Credit Facility of which \$158.5 million is currently outstanding 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. Based on our current outstanding balance, a hypothetical 1% change in the interest rates under our Credit Facility would have an approximate \$1.4 million annual impact on our net income.

## 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. Costs can also fluctuate due to government regulation. 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. 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

18

---



our purchase arrangements with suppliers, to the extent that we can enter into such arrangements, help control the ultimate cost that we pay.

#### 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 April 3, 2018, our disclosure controls and procedures are designed 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 January 2, 2018. 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.

#### Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

As of April 3, 2018, we have cumulatively repurchased shares valued at approximately \$363.0 million in accordance with our approved share repurchase plan. Approximately \$5.6 million of these shares were repurchased during the thirteen weeks ended April 3, 2018. The share repurchases were executed 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 April 3, 2018, we have approximately \$37.0 million available under the current \$400 million share repurchase plan approved by our Board of Directors. Our Credit Facility does not contain any restrictions on the amount of borrowings that can be used to make share repurchases as long as we are in compliance with our financial and non-financial covenants.

19

---

The following table sets forth information with respect to the repurchase of common shares during the thirteen weeks ended April 3, 2018:

Period (1)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of the Publicly Announced Plans	Increase in Dollars for Share Repurchase Authorization	Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
01/03/18 – 01/30/18	25,766	\$ 36.85	25,766	\$ —	\$ 41,593,499
01/31/18 – 02/27/18	22,449	\$ 36.83	22,449	\$ —	\$ 40,766,591
02/28/18– 04/03/18	86,399	\$ 43.86	86,399	\$ —	\$ 36,976,773
Total	134,614		134,614		

(1) Period information is presented in accordance with our fiscal months during the thirteen weeks ended April 3, 2018.

## Item 6. EXHIBITS

Exhibit Number	Description
3.1	<u>Amended and Restated Articles of Incorporation of the Company, incorporated by reference to Exhibit 3.1 of the Annual Report on Form 10-K for fiscal 2017.</u>
3.2	<u>Amended and Restated Bylaws of the Company, incorporated by reference to Exhibits 3.1 of the Form 8-K filed on June 4, 2007.</u>
3.3	<u>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.</u>
3.4	<u>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.</u>
4.1	<u>Specimen Common Stock Certificate of the Company, incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form SB 2A filed with the Securities and Exchange Commission on August 22, 1996 (File No. 3335182 LA).</u>
31	<u>Section 302 Certification of Chief Executive Officer and Chief Financial Officer.</u>

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 April 3, 2018, 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.

20

---

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.

BJ'S RESTAURANTS, INC.  
(Registrant)

May 7, 2018      By: /s/ GREGORY  
A. TROJAN  
Gregory A.  
Trojan  
Chief Executive  
Officer  
(Principal  
Executive  
Officer)

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