

BJs RESTAURANTS INC  
Form 10-Q  
November 03, 2014  
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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 September 30, 2014**

**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**

**33-0485615**  
**(I.R.S. Employer**  
**Identification Number)**

**(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 October 31, 2014, there were 26,082,941 shares of Common Stock of the Registrant outstanding.

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**For the thirteen weeks ended September 30, 2014**

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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>September 30, 2014</b>	<b>December 31, 2013</b>
	(unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 24,399	\$ 22,995
Marketable securities		7,988
Accounts and other receivables	12,682	12,776
Inventories	7,649	7,433
Prepays and other current assets	6,001	9,028
Deferred income taxes	11,695	10,616
Total current assets	62,426	70,836
Land held for sale		2,905
Property and equipment, net	533,723	513,597
Long-term marketable securities		1,803
Goodwill	4,673	4,673
Other assets, net	19,397	17,065
Total assets	\$ 620,219	\$ 610,879
<b>Liabilities and Shareholders Equity</b>		
Current liabilities:		
Accounts payable	\$ 28,533	\$ 31,485
Accrued expenses	71,673	60,654
Total current liabilities	100,206	92,139
Deferred income taxes	34,606	30,579
Deferred rent	24,008	22,271
Deferred lease incentives	48,777	51,953
Long-term debt	32,000	
Other liabilities	16,515	12,501
Total liabilities	256,112	209,443
Commitments and contingencies		
Shareholders equity:		

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Preferred stock, 5,000 shares authorized, none issued or outstanding		
Common stock, no par value, 125,000 shares authorized and 26,868 and 28,295 shares issued and outstanding as of September 30, 2014 and December 31, 2013, respectively	118,980	182,491
Capital surplus	52,879	45,841
Retained earnings	192,248	173,104
Total shareholders' equity	364,107	401,436
Total liabilities and shareholders' equity	\$ 620,219	\$ 610,879

See accompanying notes to unaudited consolidated financial statements.

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	<b>For The Thirteen Weeks Ended</b>		<b>For The Thirty-Nine Weeks Ended</b>	
	<b>September 30, 2014</b>	<b>October 1, 2013</b>	<b>September 30, 2014</b>	<b>October 1, 2013</b>
Revenues	\$ 206,450	\$ 188,245	\$ 631,652	\$ 575,357
Costs and expenses:				
Cost of sales	51,842	46,651	158,126	141,392
Labor and benefits	73,339	67,232	224,549	201,114
Occupancy and operating	44,875	43,731	136,705	127,258
General and administrative	12,832	11,366	39,209	36,691
Depreciation and amortization	13,981	12,465	41,255	35,874
Restaurant opening	1,264	3,235	3,743	6,285
Loss on disposal of assets	283	79	1,124	648
Legal and other settlements			2,431	
<b>Total costs and expenses</b>	<b>198,416</b>	<b>184,759</b>	<b>607,142</b>	<b>549,262</b>
Income from operations	8,034	3,486	24,510	26,095
Other income:				
Interest (expense) income, net	(42)	31	(26)	116
Other income, net	179	278	830	738
Total other income	137	309	804	854
Income before income taxes	8,171	3,795	25,314	26,949
Income tax expense	1,689	147	6,170	6,431
Net income	\$ 6,482	\$ 3,648	\$ 19,144	\$ 20,518
Net income per share:				
Basic	\$ 0.23	\$ 0.13	\$ 0.68	\$ 0.73
Diluted	\$ 0.23	\$ 0.13	\$ 0.67	\$ 0.71
Weighted average number of shares outstanding:				
Basic	27,743	28,206	28,174	28,174
Diluted	28,311	28,922	28,782	28,895

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See accompanying notes to unaudited consolidated financial statements.

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	<b>For The Thirty-Nine Weeks Ended</b>	
	<b>September 30, 2014</b>	<b>October 1, 2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 19,144	\$ 20,518
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	41,255	35,874
Deferred income taxes	2,948	114
Stock-based compensation expense	3,785	3,331
Loss on disposal of assets	1,124	648
<b>Changes in assets and liabilities:</b>		
Accounts and other receivables	(1,848)	9,330
Landlord contribution for tenant improvements	1,942	(225)
Inventories	(216)	(856)
Prepays and other current assets	2,116	1,043
Other assets, net	(2,353)	(1,875)
Accounts payable	(3,554)	5,089
Accrued expenses	11,222	5,921
Deferred rent	1,737	2,954
Deferred lease incentives	(3,176)	2,270
Other liabilities	310	567
<b>Net cash provided by operating activities</b>	<b>74,436</b>	<b>84,703</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(67,603)	(93,121)
Proceeds from sale of assets	13,143	3,971
Proceeds from marketable securities sold	18,950	23,041
Purchases of marketable securities	(9,159)	(19,614)
Collection of notes receivable		28
<b>Net cash used in investing activities</b>	<b>(44,669)</b>	<b>(85,695)</b>
<b>Cash flows from financing activities:</b>		
Borrowings on line of credit	42,000	
Payments on line of credit	(10,000)	
Excess tax benefit from stock-based compensation	3,462	771
Taxes paid on vested stock units under employee plans	(314)	(286)
Proceeds from exercise of stock options	7,918	729
Repurchases of common stock	(71,429)	
<b>Net cash (used in)/provided by financing activities</b>	<b>(28,363)</b>	<b>1,214</b>



Net increase in cash and cash equivalents	1,404	222
Cash and cash equivalents, beginning of period	22,995	15,074
Cash and cash equivalents, end of period	\$ 24,399	\$ 15,296

**Supplemental disclosure of cash flow information:**

Cash paid for income taxes	\$ 5,557	\$ 4,616
Cash paid for interest, net of capitalized interest	\$ 12	\$

**Supplemental disclosure of non-cash investing and financing activities:**

Fixed assets acquired by accounts payable	\$ 8,828	\$ 237
Stock-based compensation capitalized	\$ 155	\$ 200

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 31, 2013. 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 31, 2013, 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. 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.

**2. MARKETABLE SECURITIES**

Our investment policy restricts 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 determine the appropriate classification of our marketable securities at the time of purchase and reevaluate the held-to-maturity or available-for-sale designations as of each balance sheet date. Marketable securities are 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 are classified as short-term and marketable securities with maturities or expected put dates greater than 12 months are classified as long-term. Gains or losses are determined on the specific identification cost method and recorded in earnings when realized.

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During the thirteen weeks ended September 30, 2014, all remaining investments were liquidated. At December 31, 2013, 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. Marketable securities, in the form of municipal variable rate demand notes with expected put dates prior to the contractual maturity of the underlying debt security and backed by financial institutions in the form of a letter of credit or liquidity facility, were classified as available-for-sale securities. These securities were reported at fair value, using a market approach and classified as Level 2 fair value measurements, as further described in Note 3. Any unrealized gains or losses on available-for-sale securities would be recorded in other comprehensive income. As of December 31, 2013, there were no unrealized gains or losses with respect to available-for-sale securities.

Investments in marketable securities consist of the following (in thousands):

	September 30, 2014		December 31, 2013	
	Amortized Cost	Average Maturity (1)	Amortized Cost	Average Maturity (1)
<b>Held-to-maturity</b>				
Short-term marketable securities:				
Municipal securities, U.S. Treasury and direct agency obligations	\$		\$ 6,943	5 months
Domestic corporate obligations			1,045	10 months
	\$		\$ 7,988	
Long-term marketable securities:				
Municipal securities and direct agency obligations	\$		\$ 1,803	14 months
	\$		\$ 1,803	

(1) Average maturity is determined from the respective balance sheet dates and reported in the table as the lesser of the original maturity date or the expected put date for each investment type.

**3. FAIR VALUE MEASUREMENT**

In accordance with U.S. GAAP, a framework for using fair value to measure assets and liabilities was established by defining a three-tier fair value hierarchy, which prioritizes the inputs used to measure fair value. These tiers include:

Level 1: Defined as observable inputs such as quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Defined as pricing inputs other than quoted prices in active markets included in Level 1, which are either directly or indirectly observable as of the reporting date. Level 2 includes those financial instruments that are valued using models or other valuation methodologies. These models are primarily industry-standard models that consider various assumptions, including quoted forward prices for commodities, time value, volatility factors, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures.

Level 3: Defined as pricing inputs that are generally less observable from objective sources. These inputs may be used with internally developed methodologies that result in management's best estimate of fair value. At December 31, 2013, our marketable securities were held by institutional brokers, classified as held-to-maturity securities and reported at amortized cost, which approximated fair value (effectively, Level 2), or variable rate demand notes classified as available-for-sale securities and reported at fair value (Level 2). We placed a majority of our cash, in excess of our current operating needs, with major financial institutions and institutional brokers that, in turn, invested in 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. Our investment policy limits the amount of exposure to any one institution or investment; therefore we did not experience any losses on these marketable securities.

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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 September 30, 2014, there were borrowings of \$32.0 million outstanding under the Credit Facility and there were outstanding letters of credit totaling approximately \$11.5 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 September 30, 2014, interest paid on the borrowings under the Credit Facility was approximately \$0.01 million. The weighted average interest rate was approximately 1.09%.

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 September 30, 2014, we were in compliance with these covenants.

**5. 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.

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 Weeks Ended</b>		<b>For The Thirty-Nine Weeks Ended</b>	
	<b>September 30, 2014</b>	<b>October 1, 2013</b>	<b>September 30, 2014</b>	<b>October 1, 2013</b>
<b>Numerator:</b>				
Net income for basic and diluted net income per share	\$ 6,482	\$ 3,648	\$ 19,144	\$ 20,518
<b>Denominator:</b>				
Weighted-average shares outstanding - basic	27,743	28,206	28,174	28,174

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Dilutive effect of equity awards	568	716	608	721
Weighted-average shares outstanding - diluted	28,311	28,922	28,782	28,895

For the thirteen weeks ended September 30, 2014 and October 1, 2013, there were approximately 0.8 million and 0.7 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. For the thirty-nine weeks ended September 30, 2014 and October 1, 2013, there were approximately 0.8 million and 0.7 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.

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As of September 30, 2014, we believe that Jacmar Companies and their affiliates (collectively referred to herein as Jacmar ) owned approximately 11.8% of our outstanding common stock. In addition, James Dal Pozzo, the Chief Executive Officer of Jacmar, is a member of our Board of Directors. 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 also understand that Jacmar and its affiliates are the controlling shareholders of the Shakey's pizza parlor chain. 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 \$65.2 million and \$61.3 million of food, beverage, paper products and supplies for the thirty-nine weeks ended September 30, 2014 and October 1, 2013, respectively, which represents 22.1% and 22.8% of our total costs of sales and operating and occupancy costs, respectively. We had trade payables related to these products of \$5.0 million and \$4.8 million, at September 30, 2014 and December 31, 2013, 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 total cost of sales.

**7. STOCK-BASED COMPENSATION**

We have two stock-based compensation plans – the 2005 Equity Incentive Plan and the 1996 Stock Option Plan – under which we may issue shares of our common stock to employees, officers, directors and consultants. Upon effectiveness of the 2005 Equity Incentive Plan (the Plan ), the 1996 Stock Option Plan was closed for purposes of new grants. Both of these plans have been approved by our shareholders. Under the Plan, we have granted incentive stock options, non-qualified stock options, and restricted stock units ( 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 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 that utilizes Company RSUs or stock options and is dependent on each participant's extended service with us in their respective positions and 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. 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. In 2014, we began issuing RSU's with vesting subject to achievement of performance targets as well as time-based vesting. RSU's with performance targets generally cliff vest on the third anniversary, from the date of grant, if the targets have been achieved.

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



	<b>For The Thirteen Weeks Ended</b>		<b>For The Thirty-Nine Weeks Ended</b>	
	<b>September 30, 2014</b>	<b>October 1, 2013</b>	<b>September 30, 2014</b>	<b>October 1, 2013</b>
Labor and benefits	\$ 344	\$ 406	\$ 1,117	\$ 1,032
General and administrative	\$ 780	\$ 541	\$ 2,436	\$ 2,299
Legal and other settlements	\$	\$	\$ 232	\$
Capitalized (1)	\$ 59	\$ 96	\$ 155	\$ 200

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

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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 Thirty-Nine Weeks Ended</b>	
	<b>September 30,</b>	<b>October 1,</b>
	<b>2014</b>	<b>2013</b>
Expected volatility	37.7%	36.5%
Risk free interest rate	1.6%	0.8%
Expected option life	5 years	5 years
Dividend yield	0%	0%
Fair value of options granted	\$ 10.73	\$ 11.04

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>(in thousands)</b>	
Outstanding options at December 31, 2013	2,049	\$ 22.82	1,514	\$ 18.74
Granted	227	\$ 30.32		
Exercised	(518)	\$ 15.21		
Forfeited	(51)	\$ 39.00		
Outstanding options at September 30, 2014	1,707	\$ 25.64	1,067	\$ 21.17

As of September 30, 2014, total unrecognized stock-based compensation expense related to non-vested stock options was \$5.0 million, which is generally expected to be recognized over the next five years.

**Restricted Stock Units**

Restricted stock unit activity was as follows:

	<b>Shares (in thousands)</b>	<b>Weighted Average Fair Value</b>
Outstanding RSUs at December 31, 2013	433	\$ 33.23
Granted	140	\$ 31.13
Vested or released	(50)	\$ 22.24
Forfeited	(42)	\$ 36.03
Outstanding RSUs at September 30, 2014	481	\$ 33.48

The fair value of the RSUs is the quoted market value of our common stock on the date of grant. The fair value of each RSU is expensed over the period during which the restrictions are expected to lapse or over which performance targets are achieved. As of September 30, 2014, total unrecognized stock-based compensation expense related to non-vested restricted shares was approximately \$8.9 million, which is generally expected to be recognized over the next five years.

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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.

As of September 30, 2014, unrecognized tax benefits recorded was approximately \$1.2 million, of which approximately \$0.1 million, if reversed, would impact our effective tax rate. We anticipate a decrease of \$1.1 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):

Balance at December 31, 2013	\$ 219
Increase for tax positions taken in prior years	1,038
Increase for tax positions taken in current year	17
Decrease for statute expiration	(109)
 Balance at September 30, 2014	 \$ 1,165

Our uncertain tax positions are related to tax years that remain subject to examination by tax agencies. As of September 30, 2014, 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.

**9. 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.

## **10. 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. We repurchased and retired approximately 2.0 million shares of our common stock during the thirty-nine weeks ended September 30, 2014, at an average price of \$34.50 per share for a total of \$71.4 million, recorded as a reduction in common stock. As of September 30, 2014, approximately \$78.6 million is available to be used to repurchase common stock under the authorized repurchase program.

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**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 31, 2013, 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.

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.

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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 our relatively small number of existing restaurants and 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.

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), energy and supply costs which could adversely affect our profitability.

Our dependence on independent third party brewers 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, group 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.

Unsolicited takeover proposals, governance change proposals, proxy contests and actions by activist investors may be disruptive to our ability to optimally conduct our business and pursue our strategic plan, and may create uncertainty which may adversely affect our ability to attract and retain key employees.

Our stock repurchase program may require us to use a significant portion of our cash flow or may require us to incur indebtedness on our existing Credit Facility. Our ability to repurchase stock will depend on our ability to generate sufficient cash flows from operations, exercise of employee stock options and capacity to borrow funds, which may be subject to economic, financial, competitive and other factors that are beyond our control. Any failure to repurchase stock after we have announced our intention to do so may negatively impact investor confidence in us, thereby negatively impacting our earnings per share and stock price.

We are heavily dependent on information technology and any material failure of that technology could impair our ability to efficiently operate our business.

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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 31, 2013.

**GENERAL**

As of November 3, 2014, we owned and operated 154 restaurants located in the 18 states of Arizona, Arkansas, California, Colorado, Florida, Indiana, Kansas, Kentucky, Louisiana, Maryland, Nevada, New Mexico, Ohio, Oklahoma, Oregon, Texas, Virginia and Washington. Our restaurants operate under the BJ's Restaurant & Brewery®, BJ's Restaurant & Brewhouse®, BJ's Pizza & Grill®, or BJ's Grill® names. 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. 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 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 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.

During the thirty-nine weeks ended September 30, 2014, we closed a smaller format, BJ's Pizza & Grill legacy restaurant in Belmont Shore, California when its lease expired. 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 three restaurant leases scheduled to expire during the next twelve months. We are currently evaluating the desirability of renewing these leases or converting to a month to month lease.

**Table of Contents****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 and thirty-nine weeks ended September 30, 2014 and October 1, 2013, are not necessarily indicative of the results to be expected for the full fiscal year. Percentages reflected below may not reconcile due to rounding.

	For The Thirteen Weeks Ended		For The Thirty-Nine Weeks Ended	
	September 30, 2014	October 1, 2013	September 30, 2014	October 1, 2013
Revenues	100.0%	100.0%	100.0%	100.0%
Costs and expenses:				
Cost of sales	25.1	24.8	25.0	24.6
Labor and benefits	35.5	35.7	35.5	35.0
Occupancy and operating	21.7	23.2	21.6	22.1
General and administrative	6.2	6.0	6.2	6.4
Depreciation and amortization	6.8	6.6	6.5	6.2
Restaurant opening	0.6	1.7	0.6	1.1
Loss on disposal of assets	0.1		0.2	0.1
Legal and other settlements			0.4	
<b>Total costs and expenses</b>	<b>96.1</b>	<b>98.1</b>	<b>96.1</b>	<b>95.5</b>
Income from operations	3.9	1.9	3.9	4.5
Other income:				
Interest income, net				
Other income, net	0.1	0.1	0.1	0.1
Total other income	0.1	0.2	0.1	0.1
Income before income taxes	4.0	2.0	4.0	4.7
Income tax expense	0.8	0.1	1.0	1.1
<b>Net income</b>	<b>3.1%</b>	<b>1.9%</b>	<b>3.0%</b>	<b>3.6%</b>

***Thirteen Weeks Ended September 30, 2014 (third quarter of 2014) Compared to Thirteen Weeks Ended October 1, 2013 (third quarter of 2013).***

**Revenues.** Total revenues increased by \$18.2 million, or 9.7%, to \$206.5 million during the thirteen weeks ended September 30, 2014, from \$188.2 million during the comparable thirteen week period of 2013. The increase in revenues primarily consisted of an increase of approximately \$17.7 million in sales from new restaurants not yet in our comparable restaurant sales base coupled with an approximate 0.3%, or \$0.5 million increase in comparable restaurant sales. The increase in comparable restaurant sales resulted from an increase in customer traffic of approximately 0.7%, offset by a decrease in average check of approximately 0.4%.

Our restaurants, like most in casual dining, are impacted by inflationary pressures for the costs of certain commodities, labor and other operating expenses. We attempt to offset the impact of inflation on our cost structure with purchasing economies of scale, productivity and efficiency improvements, menu merchandising and menu price increases. If our customers do not accept our menu price increases, either by reducing their visits to our restaurants or by changing their purchasing patterns at our restaurants, the expected benefit of any menu price increase could be negated and our operating margins could be adversely impacted. To help protect customer traffic and to respond to the actions of our competitors, we may consider the promotion of selective menu offerings or introduce new menu offerings at reduced or lower price points which could have the effect of further reducing any benefit from menu price increases. Additionally, there are other factors outside of our control that can impact comparable restaurant sales, such as inclement weather, shifts in the holiday calendar, competitive restaurant intrusions into our trade areas, heavy promotional and discounting activities by our competitors, general economic and competitive conditions and other factors, as described in the Risk Factors section in Part II, Item 1A of this Quarterly Report on Form 10-Q and in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

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*Cost of Sales.* Cost of sales increased by \$5.2 million, or 11.1%, to \$51.8 million during the thirteen weeks ended September 30, 2014, from \$46.7 million during the comparable thirteen week period of 2013. This increase was primarily due to the opening of 14 new restaurants since the thirteen weeks ended October 1, 2013. As a percentage of revenues, cost of sales increased to 25.1% for the current thirteen week period from 24.8% for the prior year comparable thirteen week period. The percentage increase was primarily related to commodity cost increases and a shift in our menu mix, partially offset by increased menu pricing.

We do anticipate that cost of sales in our new restaurants will typically be higher during the first several months of operations than in our mature restaurants, as our restaurant management teams become accustomed to optimally predicting, managing and servicing sales volumes at our new restaurants. Accordingly, a comparatively large number of new restaurant openings in any single period may significantly impact total cost of sales comparisons for our entire business. Additionally, restaurants opened in new markets may initially experience higher commodity costs than our established restaurants, where we have greater market penetration that generally results in greater purchasing and distribution economies of scale. Menu mix and changes in menu mix also influence cost of sales. Therefore, cost of sales may be higher or lower in new restaurants as compared to mature restaurants based on their menu mix.

We provide our customers a large variety of menu items and, as a result, we are not overly dependent on a single group of commodities. However, based on current trends and expectations, we believe the overall cost environment for food commodities will likely continue to be subject to upward pressure during the remainder of 2014 and 2015. As such, we work with our suppliers to control food costs and we have entered into agreements for some of the commodities used in our restaurant operations. However, there can be no assurance that future supplies and costs for such commodities will not significantly increase due to weather and other market conditions outside of our control. Additionally, there are some commodities that we are unable to contract for long periods of time, such as fluid dairy items, fresh seafood and many produce items, or where we have currently chosen not to contract for long periods of time. There are also certain commodity items, such as certain produce items and certain seafood items, in which the contracts principally consist of collar agreements whereby the costs are subject to floors and ceilings. It is our current intention to attempt to offset our expected commodity cost increases through cost savings and productivity/efficiency initiatives and menu mix shifts, coupled with selective menu price increases. However, there can be no assurance that we will be entirely successful in this respect.

The cost to produce and distribute our proprietary craft beer is included in our cost of sales. During fiscal 2014, we anticipate that our qualified independent third party brewers will produce approximately 80% of our estimated requirement of approximately 75,000 barrels of our proprietary craft beer. We also use independent third party brewers to produce substantially all of our craft soda and cider products, the costs of which are also included in our cost of sales.

*Labor and Benefits.* Labor and benefit costs for our restaurants increased by \$6.1 million, or 9.1%, to \$73.3 million during the thirteen weeks ended September 30, 2014, from \$67.2 million during the comparable thirteen week period of 2013. This increase was primarily due to the opening of 14 new restaurants since the thirteen weeks ended October 1, 2013. As a percentage of revenues, labor and benefit costs decreased to 35.5% for the current thirteen week period from 35.7% for the prior year comparable thirteen week period. The percentage decrease was primarily related to improved hourly labor productivity, offset by the minimum wage increase in California. Included in labor and benefits for the thirteen weeks ended September 30, 2014 and October 1, 2013, was approximately \$0.3 million and \$0.4 million, or 0.2% 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.

Our restaurants can be affected by increases in federal, state and local minimum wages, workers compensation insurance, federal and state unemployment insurance taxes and other government regulations including overtime laws

and mandated health insurance requirements. Some states have annual minimum wage increases correlated with either state or federal increases in the consumer price index. Additionally, California increased its minimum wage from \$8 an hour to \$9 an hour on July 1, 2014, and plans to increase it to \$10 an hour beginning on January 1, 2016. In the past, we have been able to react to changes in our key operating costs, including minimum wage increases, by gradually increasing our menu prices and improving our productivity in our restaurants. However, we cannot guarantee that all or any future cost increases can be offset by increased menu prices or that increased menu prices will be accepted by our restaurant customers without any resulting changes in their visit frequencies or purchasing patterns.

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For new restaurants, labor expenses will typically be higher than normal during the first several months of operations, if not longer in some cases, until our restaurant management team at each new restaurant becomes more accustomed to optimally predicting, managing and servicing the sales volumes expected at our new restaurants. Accordingly, a comparatively large number of new restaurant openings in any single quarter may significantly impact labor cost comparisons.

*Occupancy and Operating.* Occupancy and operating expenses increased by \$1.1 million, or 2.6%, to \$44.9 million during the thirteen weeks ended September 30, 2014, from \$43.7 million during the comparable thirteen week period of 2013. This increase was primarily due to the opening of 14 new restaurants since the thirteen weeks ended October 1, 2013. As a percentage of revenues, occupancy and operating expenses decreased to 21.7% for the current thirteen week period from 23.2% for the prior year comparable thirteen week period. This percentage decrease was due to a reduction in the Texas gross receipts sales tax coupled with lower repairs and maintenance and supply costs.

*General and Administrative.* General and administrative expenses increased by \$1.5 million, or 12.9%, to \$12.8 million during the thirteen weeks ended September 30, 2014, from \$11.4 million during the comparable thirteen week period of 2013. This increase is primarily due to higher cash-based incentive compensation and other restaurant support costs during the thirteen weeks ended September 30, 2014. Also included in general and administrative costs for the thirteen weeks ended September 30, 2014 and October 1, 2013 was approximately \$0.8 million and \$0.5 million, or 0.4% and 0.3% of revenues, respectively, of stock-based compensation expense. As a percentage of revenues, general and administrative expenses increased to 6.2% for the current thirteen week period from 6.0% for the prior year comparable thirteen week period. This percentage increase was primarily due to higher cash-based incentive compensation as compared to the prior year in which a reversal of cash-based incentive compensation accrued in prior quarters was reflected.

*Depreciation and Amortization.* Depreciation and amortization increased by \$1.5 million, or 12.2%, to \$14.0 million during the thirteen weeks ended September 30, 2014, compared to \$12.5 million during the comparable thirteen week period of 2013. As a percentage of revenues, depreciation and amortization increased to 6.8% for the current thirteen week period from 6.6% for the prior year comparable thirteen week period. This percentage increase was principally a result of depreciation for new restaurants, restaurant remodels and other initiatives.

*Restaurant Opening.* Restaurant opening expense was \$1.3 million during the thirteen weeks ended September 30, 2014, compared to \$3.2 million during the comparable thirteen week period of 2013. This decrease is due to the timing of our restaurant openings coupled with fewer restaurant openings as compared to the prior year comparable thirteen week period.

Our opening costs fluctuate from period to period, depending upon, but not limited to, the number of restaurant openings, the size and concept of the restaurants being opened, the location of the restaurants and the complexity of the staff hiring and training process. Restaurant opening expenses for any given quarter typically include expenses associated with restaurants opened during the quarter as well as expenses related to restaurants opened towards the end of the prior quarter and restaurants opening in subsequent quarters.

*Loss on Disposal of Assets.* The loss on disposal of assets was \$0.3 million during the thirteen weeks ended September 30, 2014, compared to \$0.1 million during the comparable thirteen week period of 2013. These costs primarily related to the disposal of certain unproductive restaurant assets.

*Income Tax Expense.* Our effective income tax rate for the thirteen weeks ended September 30, 2014, was 20.7% compared to 3.9% for the comparable thirteen week period of 2013. The effective income tax rate for the thirteen weeks ended September 30, 2014, differed from the statutory income tax rate primarily due to tax credits and tax



planning initiatives. We currently estimate our effective tax rate to be approximately 24% for fiscal 2014. However, our actual effective tax rate for fiscal 2014 may be different than our current estimate due to actual revenues, pre-tax income and tax credits achieved during the year and the deductibility of any subsequent disqualified dispositions related to incentive stock options.

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**Table of Contents*****Thirty-Nine Weeks Ended September 30, 2014 Compared to Thirty-Nine Weeks Ended October 1, 2013.***

**Revenues.** Total revenues increased by \$56.3 million, or 9.8%, to \$631.7 million during the thirty-nine weeks ended September 30, 2014, from \$575.4 million during the comparable thirty-nine week period of 2013. The increase in revenues primarily consisted of an increase of approximately \$64.2 million in sales from new restaurants not yet in our comparable restaurant sales base, partially offset by an approximate 1.5%, or \$7.9 million decrease in comparable restaurant sales. The decrease in comparable restaurant sales resulted from a reduction in customer traffic of approximately 1.0% and a decrease in the average check of approximately 0.5%.

**Cost of Sales.** Cost of sales increased by \$16.7 million, or 11.8%, to \$158.1 million during the thirty-nine weeks ended September 30, 2014, from \$141.4 million during the comparable thirty-nine week period of 2013. This increase was primarily due to the opening of 14 new restaurants since the thirty-nine weeks ended October 1, 2013. As a percentage of revenues, cost of sales increased to 25.0% for the current thirty-nine week period from 24.6% for the prior year comparable thirty-nine week period. The percentage increase was primarily related to commodity cost increases and a shift in our menu mix, partially offset by increased menu pricing.

**Labor and Benefits.** Labor and benefit costs for our restaurants increased by \$23.4 million, or 11.7%, to \$224.5 million during the thirty-nine weeks ended September 30, 2014, from \$201.1 million during the comparable thirty-nine week period of 2013. This increase was primarily due to the opening of 14 new restaurants since the thirty-nine weeks ended October 1, 2013. As a percentage of revenues, labor and benefit costs increased to 35.5% for the current thirty-nine week period from 35.0% for the prior year comparable thirty-nine week period. The percentage increase was primarily related to higher hourly labor and management labor as a result of lower comparable restaurant sales. Included in labor and benefits for the thirty-nine weeks ended September 30, 2014 and October 1, 2013 was approximately \$1.1 million and \$1.0 million, or 0.2% 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 \$9.4 million, or 7.4%, to \$136.7 million during the thirty-nine weeks ended September 30, 2014, from \$127.3 million during the comparable thirty-nine week period of 2013. This increase was primarily due to the opening of 14 new restaurants since the thirty-nine weeks ended October 1, 2013. As a percentage of revenues, occupancy and operating expenses decreased to 21.6% for the current thirty-nine week period from 22.1% for the prior year comparable thirty-nine week period. This percentage decrease was primarily due to a reduction in the Texas gross receipts sales tax coupled with lower repairs and maintenance and supply costs.

**General and Administrative.** General and administrative expenses increased by \$2.5 million, or 6.9%, to \$39.2 million during the thirty-nine weeks ended September 30, 2014, from \$36.7 million during the comparable thirty-nine week period of 2013. This increase is primarily due to higher cash-based incentive compensation and other restaurant support costs during the thirty-nine weeks ended September 30, 2014. Included in general and administrative costs for the thirty-nine weeks ended September 30, 2014 and October 1, 2013, was approximately \$2.4 million and \$2.3 million, or 0.4% of revenues, respectively, of stock-based compensation expense. As a percentage of revenues, general and administrative expenses decreased to 6.2% for the current thirty-nine week period from 6.4% for the prior year comparable thirty-nine week period. This percentage decrease was primarily due to fewer managers in our training program and less travel related expenses as compared to the prior year, offset by higher cash-based incentive compensation.

**Depreciation and Amortization.** Depreciation and amortization increased by \$5.4 million, or 15.0%, to \$41.3 million during the thirty-nine weeks ended September 30, 2014, compared to \$35.9 million during the comparable thirty-nine

week period of 2013. As a percentage of revenues, depreciation and amortization increased to 6.5% for the current thirty-nine week period from 6.2% for the prior year comparable thirty-nine week period. This percentage increase was principally a result of depreciation for new restaurants, restaurant remodels and other initiatives, coupled with the deleveraging of the fixed component of these expenses as a result of lower comparable restaurant sales.

*Restaurant Opening.* Restaurant opening expense was \$3.7 million during the thirty-nine weeks ended September 30, 2014, compared to \$6.3 million during the comparable thirty-nine week period of 2013. This decrease is due to the timing of our restaurant openings coupled with fewer restaurant openings as compared to the prior year comparable thirty-nine week period.

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*Loss on Disposal of Assets.* The loss on disposal of assets was \$1.1 million during the thirty-nine weeks ended September 30, 2014, compared to \$0.6 million during the comparable thirty-nine week period of 2013. For the thirty-nine weeks ended September 30, 2014, these costs related to the disposal of certain unproductive restaurant assets and the remaining net book value related to the closure of our smaller format restaurant in Belmont Shore, California, upon expiration of its lease. For the thirty-nine weeks ended October 1, 2013, these costs primarily related to the write off of the remaining net book value of assets related to the closure and relocation of our smaller-format restaurant in Eugene, Oregon, coupled with the disposal of certain unproductive restaurant assets in connection with our ongoing productivity/efficiency initiatives and facility image enhancement activities.

*Legal and Other Settlements.* Legal and other settlements of \$2.4 million during the thirty-nine weeks ended September 30, 2014, was related to professional fees and other expenses incurred in connection with our shareholder settlement dated April 21, 2014. See our Current Report on Form 8-K filed on April 22, 2014 for a description of such settlement.

*Income Tax Expense.* Our effective income tax rate for the thirty-nine weeks ended September 30, 2014, was 24.4% compared to 23.9% for the comparable thirty-nine week period of 2013. The effective income tax rate for the thirty-nine weeks ended September 30, 2014, differed from the statutory income tax rate primarily due to tax credits and tax planning initiatives. We currently estimate our effective tax rate to be approximately 24% for fiscal 2014. However, our actual effective tax rate for fiscal 2014 may be different than our current estimate due to actual revenues, pre-tax income and tax credits achieved during the year and the deductibility of any subsequent disqualified dispositions related to incentive stock options.

**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>September 30, 2014</b>	<b>December 31, 2013</b>
Cash and cash equivalents	\$ 24,399	\$ 22,995
Total marketable securities	\$	\$ 9,791
Net working capital	\$ (37,780)	\$ (21,303)
Current ratio	0.6:1.0	0.8:1.0

	<b>For The Thirty-Nine Weeks Ended</b>	
	<b>September 30, 2014</b>	<b>October 1, 2013</b>
Cash provided by operating activities	\$ 74,436	\$ 84,703
Capital expenditures	\$ 67,603	\$ 93,121

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 at least a 11% increase in total restaurant operating weeks during fiscal 2014 from the development and opening of new restaurants, coupled with the carryover impact of partial-year 2013 openings. 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 yet be large enough to generate enough cash flow from operations to totally fund our planned expansion over the long-term. We estimate the total domestic capacity to be at least 425 BJ's restaurants. 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. 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.

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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.

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.

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 land that underlies four 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.

Our cash flows from operating activities, as detailed in the Consolidated Statements of Cash Flows, provided \$74.4 million during the thirty-nine weeks ended September 30, 2014, representing an \$10.3 million decrease from the \$84.7 million provided during the comparable thirty-nine week period of 2013. The decrease in cash from operating activities for the thirty-nine weeks ended September 30, 2014, in comparison to the thirty-nine weeks ended October 1, 2013, is primarily due to the timing of accounts receivable, accounts payable and deferred lease incentives, coupled with less net income, offset by the timing of accrued expenses and greater depreciation expense as a result of more restaurants in operation.

For the thirty-nine weeks ended September 30, 2014, total capital expenditures were approximately \$67.6 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 \$57.5 million. These expenditures were primarily related to the construction of our eight new restaurants that opened during the thirty-nine weeks ended September 30, 2014, as well as expenditures related to restaurants expected to open later in fiscal 2014. In addition, total capital expenditures related to the maintenance and key productivity initiatives of existing restaurants and expenditures for restaurant and corporate systems were \$9.4 million and \$0.7 million, during the thirty-nine weeks ended September 30, 2014, 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. As of September 30, 2014, there were borrowings of \$32.0 million outstanding under the Credit Facility and there were outstanding letters of credit totaling approximately \$11.5 million. 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

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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. The Credit Facility agreement also contains affirmative and negative covenants which restrict our ability to, among other things, create liens, borrow money (other than 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 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.

Our capital expenditures during fiscal 2014 will continue to be significant as we currently plan to open 11 new restaurants, in addition to our necessary restaurant-level maintenance and key initiative-related capital expenditures. As of November 3, 2014, we have entered into three signed leases for new restaurant locations expected to open in the fourth quarter, one of which has already opened. We expect to open at least 15 new restaurants in fiscal 2015, of which we have currently entered into eight signed leases or land purchase agreements. We currently anticipate our total capital expenditures for fiscal 2014, including all expenditure categories, to be approximately \$90 million. We expect to fund our anticipated capital expenditures for fiscal 2014 and 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 expansion of our BJ's Grill concept 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.

In January 2014, our subsidiary Chicago Pizza Hospitality Holding, Inc. entered into a Settlement Agreement and Waiver with the Texas Alcoholic Beverage Commission ( TABC ). Under the terms of the Settlement Agreement and Waiver, we agreed to terminate the use of independent third party brewers to supply proprietary beer for our Texas restaurants and to transition the production and supply of all of our proprietary beer for our Texas restaurants through licensed brewpubs to be built, owned and operated by us on or before June 2015. We expect that the supply of proprietary beer in Texas will be met through the construction and operation of two licensed brewpubs. We do not believe the cost to construct or operate these brewpubs will have any significant impact on our liquidity or operating margins.

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 2014. If our business does not generate enough cash flows from operations as expected, or if our landlords are unable to honor their agreements with us, or 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. Rather, it is our current policy to retain earnings, if any, for expansion of our operations, remodeling and investing in our existing restaurants and other general corporate purposes. 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 deem 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.

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In April 2014, our Board of Directors authorized a \$50 million share repurchase plan, which was subsequently increased to \$150 million in August 2014. Approximately \$71.4 million of this amount was repurchased during the thirty-nine weeks ended September 30, 2014. The share repurchases may be completed through the combination of individually negotiated transactions, accelerated share buybacks, and/or open market purchases. As of September 30, 2014, we have approximately \$78.6 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 September 30, 2014, 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.

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 anticipated impact from 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.

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**CRITICAL ACCOUNTING POLICIES**

Critical accounting policies require the greatest amount of subjective or complex judgments by management and are important to portraying our financial condition and results of operations. Judgments or uncertainties regarding the application of these policies may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing our consolidated financial statements.

***Fair Value of Marketable Securities and Cash Equivalents***

We measure the fair value of our marketable securities using quoted market prices in active markets. All of our marketable securities were classified as held-to-maturity or available-for-sale, included as short-term and long-term marketable securities in the Consolidated Balance Sheets. Held-to-maturity securities were reported at amortized cost, which approximated fair value, with related gains and losses reflected in earnings once realized, and available-for-sale securities were reported at their fair value, with unrealized gains and losses excluded from net income and reported as a separate component of shareholders' equity (net of related tax effect) until realized. We believe that the fair value of our marketable securities equaled the quoted market price of our marketable securities at December 31, 2013. We also believe the carrying value of cash equivalents approximated fair value due to the short-term nature of those instruments.

***Property and Equipment***

We record all property and equipment at cost. Property and equipment accounting requires estimates of the useful lives for the assets for depreciation purposes and selection of depreciation methods. We believe the useful lives reflect the actual economic life of the underlying assets. We have elected to use the straight-line method of depreciation over the estimated useful life of an asset or the primary lease term of the respective lease, whichever is shorter. Renewals and betterments that materially extend the useful life of an asset are capitalized while maintenance and repair costs are charged to operations as incurred. Judgment is often required in the decision to distinguish between an asset which qualifies for capitalization versus an expenditure which is for maintenance and repairs. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation and amortization accounts are relieved, and any gain or loss is included in earnings. Additionally, any interest capitalized for new restaurant construction would be included in Property and equipment, net on the Consolidated Balance Sheets.

***Impairment of Long-Lived Assets***

We assess potential impairments of our long-lived assets whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The assets are generally reviewed for impairment in total as well as on a restaurant by restaurant basis. Factors considered include, but are not limited to, significant underperformance by the restaurant relative to expected historical or projected future operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; and significant negative industry or economic trends. The recoverability is assessed in most cases by comparing the carrying value of the asset to the undiscounted cash flows expected to be generated by the asset. This assessment process requires the use of estimates and assumptions regarding future restaurant cash flows and estimated useful lives, which are subject to a significant degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets or for the entire restaurant.

***Self-Insurance Liability***

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. The accrued liability associated with these programs is based on our estimate of the ultimate costs to settle known claims as well as claims incurred but not yet reported to us ( IBNR claims ) as of the balance sheet date. Our estimated liability is based on information provided by our insurance broker and a third party actuary, combined with our judgments regarding a number of assumptions and factors, including the frequency and severity of claims, our claims development history, case jurisdiction, related legislation, and our claims settlement practice. Significant judgment is required to estimate IBNR claims as parties have yet to assert such claims. If actual claims trends, including the severity or frequency of claims, differ from our estimates, our financial results could be significantly impacted.

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### ***Income Taxes***

We provide for income taxes based on our estimate of federal and state tax liabilities. Our estimates include, but are not limited to, effective state and local income tax rates, allowable tax credits for items such as FICA taxes paid on reported tip income and estimates related to depreciation expense allowable for tax purposes. We usually file our income tax returns several months after our fiscal year-end. We file our tax returns with the advice and compilation of tax consultants. All tax returns are subject to audit by federal and state governments, usually years after the returns are filed, and could be subject to differing interpretation of the tax laws.

We utilize the liability method of accounting for income taxes. Deferred income taxes are recognized based on the tax consequences in future years of differences between the tax basis of assets and liabilities and their financial reporting amounts at each year-end based on enacted tax laws and statutory tax rates applicable to the periods in which differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax payable for the period and the change during the period in deferred tax assets and liabilities.

We recognize the impact of a tax position in our financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. Interest and penalties related to uncertain tax positions are included in income tax expense.

### ***Leases***

We lease the majority of our restaurant locations. We account for our leases in accordance with U.S. GAAP, which require that our leases be evaluated and classified as operating or capital leases for financial reporting purposes. The term used for this evaluation includes renewal option periods only in instances in which the exercise of the renewal option can be reasonably assured and failure to exercise such option would result in an economic penalty. All of our restaurant leases are classified as operating leases. We disburse cash for leasehold improvements, furniture and fixtures and equipment to build out and equip our leased premises. Tenant improvement allowance incentives may be available to partially offset the cost of developing and opening the related restaurants, pursuant to agreed-upon terms in our leases. Tenant improvement allowances can take the form of cash payments upon the opening of the related restaurants, full or partial credits against minimum or percentage rents otherwise payable by us or a combination thereof. All tenant improvement allowances received by us are recorded as a deferred lease incentive and amortized over the term of the lease. The related cash received from the landlord is reflected as Landlord contribution for tenant improvements within operating activities of our Consolidated Statements of Cash Flows.

The lease term used for straight-line rent expense is calculated from the date we obtain possession of the leased premises through the lease termination date. We expense rent from possession date through restaurant open date as preopening expense. Once a restaurant opens for business, we record straight-line rent over the lease term plus contingent rent to the extent it exceeded the minimum rent obligation per the lease agreement.

There is potential for variability in the rent holiday period, which begins on the possession date and ends on the restaurant open date, during which no cash rent payments are typically due under the terms of the lease. Factors that may affect the length of the rent holiday period generally relate to construction related delays. Extension of the rent holiday period due to delays in restaurant opening will result in greater preopening rent expense recognized during the rent holiday period and lesser occupancy expense during the rest of the lease term (post-opening).

For leases that contain rent escalations in which the amount of future rent is certain or can be reasonably calculated, we record the total rent payable during the lease term, as determined above, on the straight-line basis over the term of

the lease (including the rent holiday period beginning upon our possession of the premises), and record the difference between the minimum rents paid and the straight-line rent as deferred rent. Certain leases contain provisions that require additional rent payments based upon restaurant sales volume ( contingent rent ). Contingent rent is accrued each period as the liabilities are incurred, in addition to the straight-line rent expense noted above. This results in some variability in occupancy expense as a percentage of revenues over the term of the lease in restaurants where we pay contingent rent.

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Management makes judgments regarding the probable term for each restaurant property lease, which can impact the classification and accounting for a lease as capital or operating, the rent holiday and/or escalations in payments that are taken into consideration when calculating straight-line rent and the term over which leasehold improvements for each restaurant are amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

### ***Stock-Based Compensation***

Under shareholder approved stock-based compensation plans, we have granted incentive stock options, non-qualified stock options, and restricted stock units that generally vest over three to five years and expire ten years from the date of grant. Stock-based compensation is measured in accordance with U.S. GAAP based on the underlying fair value of the awards granted. In valuing stock options, we are required to make certain assumptions and judgments regarding the grant date fair value utilizing the Black-Scholes option-pricing model. 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 cash flow tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are required to be classified as financing cash flows.

### **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.

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, 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.

### **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 September 30, 2014, 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 third fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 1. LEGAL PROCEEDINGS**

See Note 9 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 31, 2013. 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**

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 \$71.4 million was repurchased during the thirty-nine weeks ended September 30, 2014. The share repurchases may be completed through the combination of individually negotiated transactions, accelerated share buybacks, and/or open market purchases. The following table sets forth information with respect to repurchases of common shares made during the thirty-nine weeks ended September 30, 2014:

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	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
04/02/2014	04/30/2014		\$		\$	\$ 50,000,000
05/01/2014	05/28/2014	70,469	\$ 29.50	70,469	\$	\$ 47,948,931
05/29/2014	07/01/2014	220,685	\$ 34.42	220,685	\$	\$ 40,203,604
07/02/2014	07/29/2014	324,712	\$ 33.69	324,712	\$	\$ 29,348,104
07/30/2014	08/26/2014	763,547	\$ 35.41	763,547	\$ 100,000,000	\$ 102,183,693
08/27/2014	09/30/2014	642,515	\$ 36.82	642,515	\$	\$ 78,570,878

Total	2,021,928	\$ 34.50	2,021,928
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(1) Monthly information is presented by reference to our fiscal months during the thirteen weeks ended September 30, 2014.

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**Item 6. EXHIBITS**

<b>Exhibit Number</b>	<b>Description</b>
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	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.
10.1	Employment Agreement dated July 9, 2014, between the Company and Kevin Mayer, Executive Vice President and Chief Marketing Officer.
10.2	Amended and Restated Credit Agreement, dated September 3, 2014, between the Company and Bank of America, N.A. and JPMorgan Chase Bank, N.A.
31	Section 302 Certifications 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 September 30, 2014, 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.

**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)

November 3, 2014

By: /s/ GREGORY A. TROJAN

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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)

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