

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

For the Quarterly Period Ended October 2, 2018

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 0-21423

**BJ'S RESTAURANTS, INC.**

(Exact name of registrant as specified in its charter)

**California**  
(State or other jurisdiction of  
incorporation or organization)

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

**7755 Center Avenue, Suite 300  
Huntington Beach, California 92647**

**(714) 500-2400**

(Address, including zip code, and telephone number, including  
area code, of registrant's principal executive offices)

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

Indicate by check mark whether the registrant has submitted electronically every interactive data file required to be submitted 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 such files). Yes  No

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

- |   |  |
|---|--|
| <input checked="" type="checkbox"/> Large accelerated filer | <input type="checkbox"/> Accelerated filer         |
| <input type="checkbox"/> Non-accelerated filer              | <input type="checkbox"/> Smaller reporting company |
| <input type="checkbox"/> Emerging growth company            |  |

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

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

As of November 2, 2018, there were 21,292,116 shares of Common Stock of the Registrant outstanding.

---

**BJ'S RESTAURANTS, INC.**  
**TABLE OF CONTENTS**

|                 | <b><u>Page</u></b>  |
|-----------------|---|
| <b>PART I.</b>  | <b><u>FINANCIAL INFORMATION</u></b>   |
| Item 1.         | <b><u>Consolidated Financial Statements</u></b>   |
|                 | <b><u>Consolidated Balance Sheets –</u></b>   |
|                 | <b><u>October 2, 2018 (Unaudited) and January 2, 2018</u></b>                                       |
|                 | 1   |
|                 | <b><u>Unaudited Consolidated Statements of Income –</u></b>   |
|                 | <b><u>Thirteen and Thirty-Nine Weeks Ended October 2, 2018 and October 3, 2017</u></b>              |
|                 | 2   |
|                 | <b><u>Unaudited Consolidated Statements of Cash Flows –</u></b>                                     |
|                 | <b><u>Thirteen and Thirty-Nine Weeks Ended October 2, 2018 and October 3, 2017</u></b>              |
|                 | 3   |
|                 | <b><u>Notes to Unaudited Consolidated Financial Statements</u></b>                                  |
|                 | 4   |
| Item 2.         | <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> |
|                 | 10  |
| Item 3.         | <b><u>Quantitative and Qualitative Disclosures about Market Risk</u></b>                            |
|                 | 20  |
| Item 4.         | <b><u>Controls and Procedures</u></b>   |
|                 | 21  |
| <b>PART II.</b> | <b><u>OTHER INFORMATION</u></b>   |
| Item 1.         | <b><u>Legal Proceedings</u></b>   |
|                 | 21  |
| Item 1A.        | <b><u>Risk Factors</u></b>  |
|                 | 21  |
| Item 2.         | <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>                           |
|                 | 21  |
| Item 6.         | <b><u>Exhibits</u></b>  |
|                 | 23  |
|                 | <b><u>SIGNATURES</u></b>  |
|                 | 24  |

---

**PART I. FINANCIAL INFORMATION**

**Item 1. CONSOLIDATED FINANCIAL STATEMENTS**

**BJ'S RESTAURANTS, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands)**

|   | <b>October 2, 2018</b> | <b>January 2, 2018</b> |
|---|------------------------|------------------------|
|   | (unaudited)            |                        |
| <b>Assets</b>   |                        |                        |
| Current assets:   |                        |                        |
| Cash and cash equivalents   | \$ 25,632              | \$ 24,335              |
| Accounts and other receivables, net   | 15,240                 | 13,865                 |
| Inventories, net  | 10,126                 | 10,514                 |
| Prepaid expenses and other current assets   | 9,464                  | 11,615                 |
| Total current assets  | 60,462                 | 60,329                 |
| Property and equipment, net   | 576,742                | 589,844                |
| Goodwill  | 4,673                  | 4,673                  |
| Other assets, net   | 31,146                 | 30,112                 |
| Total assets  | \$ 673,023             | \$ 684,958             |
| <b>Liabilities and Shareholders' Equity</b>   |                        |                        |
| Current liabilities:  |                        |                        |
| Accounts payable (1)  | \$ 21,860              | \$ 25,275              |
| Accrued expenses  | 101,048                | 97,266                 |
| Total current liabilities   | 122,908                | 122,541                |
| Deferred income taxes   | 17,070                 | 21,694                 |
| Deferred rent   | 34,532                 | 32,487                 |
| Deferred lease incentives   | 54,916                 | 52,843                 |
| Long-term debt  | 95,000                 | 163,500                |
| Other liabilities   | 36,325                 | 33,164                 |
| Total liabilities   | 360,751                | 426,229                |
| Commitments and contingencies   |                        |                        |
| Shareholders' equity:   |                        |                        |
| Preferred stock, 5,000 shares authorized, none issued or outstanding  | —                      | —                      |
| Common stock, no par value, 125,000 shares authorized and 21,260 and 20,485 shares issued and outstanding as of October 2, 2018 and January 2, 2018, respectively | —                      | —                      |
| Capital surplus   | 63,405                 | 68,904                 |
| Retained earnings   | 248,867                | 189,825                |
| Total shareholders' equity  | 312,272                | 258,729                |
| Total liabilities and shareholders' equity  | \$ 673,023             | \$ 684,958             |

See accompanying notes to unaudited consolidated financial statements.

- (1) Included in accounts payable as of October 2, 2018 and January 2, 2018 is \$3,866 and \$6,537, respectively, of related party trade payables. See Note 5 for further information.

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

|   | For the Thirteen Weeks<br>Ended |                    | For the Thirty-Nine Weeks<br>Ended |                    |
|---|---------------------------------|--------------------|------------------------------------|--------------------|
|   | October 2,<br>2018              | October 3,<br>2017 | October 2,<br>2018                 | October 3,<br>2017 |
| Revenues  | \$ 270,268                      | \$ 247,009         | \$ 836,425                         | \$ 770,642         |
| Restaurant operating costs (excluding depreciation and amortization): |                                 |                    |                                    |                    |
| Cost of sales (1)   | 68,600                          | 65,553             | 210,597                            | 200,465            |
| Labor and benefits  | 99,061                          | 91,228             | 301,480                            | 277,724            |
| Occupancy and operating (1)   | 61,102                          | 55,238             | 177,678                            | 164,054            |
| General and administrative  | 14,661                          | 13,035             | 45,643                             | 41,536             |
| Depreciation and amortization   | 17,686                          | 17,430             | 52,760                             | 51,231             |
| Restaurant opening  | 403                             | 534                | 1,835                              | 3,205              |
| Loss on disposal and impairment of assets                             | 865                             | 1,070              | 3,049                              | 4,168              |
| Natural disaster and related  | —                               | 905                | —                                  | 905                |
| Severance and legal settlements                                       | —                               | 423                | —                                  | 423                |
| Total costs and expenses  | <u>262,378</u>                  | <u>245,416</u>     | <u>793,042</u>                     | <u>743,711</u>     |
| Income from operations  | <u>7,890</u>                    | <u>1,593</u>       | <u>43,383</u>                      | <u>26,931</u>      |
| Other (expense) income:   |                                 |                    |                                    |                    |
| Interest expense, net   | (1,058)                         | (1,177)            | (3,826)                            | (3,178)            |
| Other income (expense), net   | 239                             | 423                | 220                                | 1,474              |
| Total other expense   | <u>(819)</u>                    | <u>(754)</u>       | <u>(3,606)</u>                     | <u>(1,704)</u>     |
| Income before income taxes  | 7,071                           | 839                | 39,777                             | 25,227             |
| Income tax (benefit) expense  | <u>(1,445)</u>                  | <u>(1,550)</u>     | <u>(348)</u>                       | <u>3,933</u>       |
| Net income  | <u>\$ 8,516</u>                 | <u>\$ 2,389</u>    | <u>\$ 40,125</u>                   | <u>\$ 21,294</u>   |
| Net income per share:   |                                 |                    |                                    |                    |
| Basic   | <u>\$ 0.40</u>                  | <u>\$ 0.11</u>     | <u>\$ 1.92</u>                     | <u>\$ 0.98</u>     |
| Diluted   | <u>\$ 0.39</u>                  | <u>\$ 0.11</u>     | <u>\$ 1.87</u>                     | <u>\$ 0.97</u>     |
| Weighted average number of shares outstanding:                        |                                 |                    |                                    |                    |
| Basic   | <u>21,118</u>                   | <u>21,354</u>      | <u>20,861</u>                      | <u>21,620</u>      |
| Diluted   | <u>21,807</u>                   | <u>21,670</u>      | <u>21,500</u>                      | <u>22,032</u>      |
| Cash dividends declared per common share                              | <u>\$ 0.11</u>                  | <u>\$ —</u>        | <u>\$ 0.33</u>                     | <u>\$ —</u>        |

See accompanying notes to unaudited consolidated financial statements.

- (1) Related party costs included in cost of sales are \$21,047 and \$20,487 for the thirteen weeks ended October 2, 2018 and October 3, 2017, respectively, and \$64,628 and \$62,376 for the thirty-nine weeks ended October 2, 2018 and October 3, 2017, respectively. Related party costs included in occupancy and operating are \$2,393 and \$2,325 for the thirteen weeks ended October 2, 2018 and October 3, 2017, respectively, and \$7,328 and \$6,868 for the thirty-nine weeks ended October 2, 2018 and October 3, 2017, respectively. See Note 5 for further information.

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

|   | <b>For the Thirty-Nine Weeks Ended</b> |                        |
|---|--|------------------------|
|   | <b>October 2, 2018</b>                 | <b>October 3, 2017</b> |
| <b>Cash flows from operating activities:</b>                                      |  |                        |
| Net income  | \$ 40,125                              | \$ 21,294              |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                        |
| Depreciation and amortization   | 52,760                                 | 51,231                 |
| Deferred income taxes   | (4,624)                                | (514)                  |
| Stock-based compensation expense  | 6,258                                  | 5,271                  |
| Loss on disposal and impairment of assets   | 3,049                                  | 4,168                  |
| Natural disaster and related  | —                                      | 194                    |
| Changes in assets and liabilities:  |  |                        |
| Accounts and other receivables  | 759                                    | 2,559                  |
| Landlord contribution for tenant improvements                                     | (1,380)                                | 124                    |
| Inventories, net  | 388                                    | (319)                  |
| Prepaid expenses and other current assets   | 1,595                                  | 2,603                  |
| Other assets, net   | (1,978)                                | (3,509)                |
| Accounts payable  | (4,187)                                | (4,788)                |
| Accrued expenses  | (990)                                  | (10,919)               |
| Deferred rent   | 2,045                                  | 1,623                  |
| Deferred lease incentives   | 2,073                                  | (168)                  |
| Other liabilities   | (905)                                  | 204                    |
| Net cash provided by operating activities   | <u>94,988</u>                          | <u>69,054</u>          |
| <b>Cash flows from investing activities:</b>                                      |  |                        |
| Purchases of property and equipment   | (42,380)                               | (57,358)               |
| Proceeds from sale of assets  | 5,501                                  | 4,739                  |
| Net cash used in investing activities   | <u>(36,879)</u>                        | <u>(52,619)</u>        |
| <b>Cash flows from financing activities:</b>                                      |  |                        |
| Borrowings on line of credit  | 948,000                                | 1,604,600              |
| Payments on line of credit  | (1,016,500)                            | (1,558,600)            |
| Taxes paid on vested stock units under employee plans                             | (384)                                  | (248)                  |
| Proceeds from exercise of stock options   | 25,682                                 | 1,029                  |
| Cash dividends paid   | (6,919)                                | —                      |
| Repurchases of common stock   | (6,691)                                | (57,283)               |
| Net cash used in financing activities   | <u>(56,812)</u>                        | <u>(10,502)</u>        |
| Net increase in cash and cash equivalents   | 1,297                                  | 5,933                  |
| Cash and cash equivalents, beginning of period                                    | 24,335                                 | 22,761                 |
| Cash and cash equivalents, end of period  | <u>\$ 25,632</u>                       | <u>\$ 28,694</u>       |
| <b>Supplemental disclosure of cash flow information:</b>                          |  |                        |
| Cash paid for income taxes  | <u>\$ 8,456</u>                        | <u>\$ 4,909</u>        |
| Cash paid for interest, net of capitalized interest                               | <u>\$ 3,399</u>                        | <u>\$ 2,968</u>        |
| <b>Supplemental disclosure of non-cash investing and financing activities:</b>    |  |                        |
| Property and equipment acquired and included in accounts payable                  | <u>\$ 4,648</u>                        | <u>\$ 6,947</u>        |
| Stock-based compensation capitalized  | <u>\$ 244</u>                          | <u>\$ 218</u>          |

See accompanying notes to unaudited consolidated financial statements.

**BJ'S RESTAURANTS, INC.**  
**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements include the accounts of BJ's Restaurants, Inc. (referred to herein as the "Company," "we," "us" and "our") and our wholly owned subsidiaries. The consolidated financial statements presented herein include all material adjustments (consisting of normal recurring adjustments) which are, in the opinion of management, necessary for a fair presentation of our financial condition, results of operations and cash flows for the period. Our consolidated financial statements and accompanying notes have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and footnote disclosures normally included in consolidated financial statements in accordance with U.S. GAAP have been omitted pursuant to the U.S. Securities and Exchange Commission ("SEC") rules.

The preparation of financial statements in conformity with U.S. GAAP requires us to make certain estimates and assumptions for the reporting periods covered by the financial statements. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual amounts could differ from these estimates.

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

***Recently Issued Accounting Standards***

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

***Recently Adopted Accounting Standards***

In April 2016, the FASB issued ASU 2016-10, an amendment to ASU 2014-09, Revenue from Contracts with Customers ("Topic 606"). ASU 2014-09 provides a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services and expands related disclosure requirements. ASU 2016-10 clarified ASU 2014-09 to address the potential for diversity in practice at the adoption. The standard also requires gift card breakage to be recognized as revenue in proportion to the pattern of gift card redemptions exercised by our customers. ASUs 2016-10 and 2014-09 were effective for annual and interim reporting periods beginning after December 15, 2017, and were permitted to be applied retrospectively to each prior period presented or retrospectively with the cumulative adjustment to opening retained earnings as of the date of adoption (modified retrospective approach).

We adopted ASU 2016-10 on January 3, 2018, and elected the modified retrospective adoption method. As a result, we recorded a net cumulative adjustment of \$4.6 million to opening retained earnings. We now allocate loyalty member transaction amounts between the goods delivered and the future goods that will be delivered, on a relative standalone selling price basis. For the thirty-nine weeks ended October 2, 2018, approximately \$1.3 million of net revenues have been deferred until those loyalty points are redeemed in the future and approximately \$1.1 million of gift card breakage has been recorded as revenues.

Under the previous standard, we estimated the cost of the loyalty reward based on the equivalent cost of the food and beverage earned and recorded this cost as a marketing expense included in "Occupancy and operating" on our Consolidated Statements

of Income. Additionally, under the previous standard we recorded gift card breakage as other income included within “Other (expense) income, net” on our Consolidated Statements of Income. ASU 2016-10 does not impact the calculation of our comparable restaurant sales or how we calculate gift card breakage.

## 2. REVENUE RECOGNITION

Our revenues are comprised of food and beverage sales at our restaurants. Revenues from restaurant sales are recognized when payment is tendered at the point of sale. Amounts paid with a credit card are recorded in accounts and other receivables until payment is collected. Gift card sales are recorded as a liability and recognized as revenues upon redemption in our restaurants. Estimated gift card breakage is recorded as revenue and recognized in proportion to our historical redemption pattern. The estimated gift card breakage is based on when the likelihood of redemption becomes remote, which has typically been 24 months after the original gift card issuance date.

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

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

|  | <u>October 2, 2018</u> | <u>January 2, 2018</u> |
|--|------------------------|------------------------|
| Gift card liability  | \$ 9,978               | \$ 14,955              |
| Deferred loyalty revenue (post-adoption of ASU 2016-10)      | \$ 10,510              | \$ —                   |
| Estimated future loyalty costs (pre-adoption of ASU 2016-10) | \$ —                   | \$ 3,080               |

Revenue recognized on our Consolidated Statements of Income for the redemption of gift cards and loyalty rewards deferred at the beginning of each respective fiscal year is as follows (in thousands):

|  | <u>For the Thirteen Weeks Ended</u> |                        | <u>For the Thirty-Nine Weeks Ended</u> |                        |
|--|-------------------------------------|------------------------|--|------------------------|
|  | <u>October 2, 2018</u>              | <u>October 3, 2017</u> | <u>October 2, 2018</u>                 | <u>October 3, 2017</u> |
| Revenue recognized from gift card liability      | \$ 1,167                            | \$ 695                 | \$ 8,853                               | \$ 6,812 (1)           |
| Revenue recognized from customer loyalty program | \$ 1,229                            | \$ —                   | \$ 6,282                               | \$ — (2)               |

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

## 3. LONG-TERM DEBT

### *Line of Credit*

Our Credit Facility, which matures on November 18, 2021, provides us with revolving loan commitments totaling \$250 million, of which \$50 million may be used for the issuance of letters of credit. Availability under the Credit Facility is reduced by outstanding letters of credit, which are used to support our self-insurance programs. Our obligations under the Credit Facility are unsecured. As of October 2, 2018, there were borrowings of \$95.0 million and letters of credit totaling approximately \$14.5 million outstanding under the Credit Facility. Available borrowings under the Credit Facility were \$140.5 million as of October 2, 2018. The Credit Facility bears interest at our choice of LIBOR plus a percentage not to exceed 1.75%, or at a rate ranging from Bank of America’s prime rate to 0.75% above Bank of America’s prime rate, based on our level of lease and debt obligations as compared to EBITDA plus lease expenses. The weighted average interest rate during the thirty-nine weeks ended October 2, 2018 was approximately 3.3%.

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 October 2, 2018, we were in compliance with these covenants.

Interest expense and commitment fees under the Credit Facility for the thirty-nine weeks ended October 2, 2018 and October 3, 2017 were approximately \$3.8 million and \$3.2 million, respectively. We also capitalized approximately \$0.1 million of interest expense related to new restaurant construction during both the thirty-nine weeks ended October 2, 2018 and October 3, 2017.

#### 4. NET INCOME PER SHARE

Basic net income per share is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted net income per share reflects the potential dilution that could occur if in-the-money stock options issued by us to sell common stock at set prices were exercised and if restrictions on restricted stock units (“RSUs”) issued by us were to lapse (collectively, equity awards) using the treasury stock method. Performance-based RSUs are considered contingent shares; therefore, at each reporting date we determine the probable number of shares that will vest and we include these contingently issuable shares in our diluted net income calculation. Once these performance-based RSUs vest, they are included in our basic net income per share calculation.

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

|   | For the Thirteen Weeks Ended |                 | For the Thirty-Nine Weeks Ended |                 |
|---|------------------------------|-----------------|---------------------------------|-----------------|
|   | October 2, 2018              | October 3, 2017 | October 2, 2018                 | October 3, 2017 |
| <b>Numerator:</b>                             |                              |                 |                                 |                 |
| Net income                                    | \$ 8,516                     | \$ 2,389        | \$ 40,125                       | \$ 21,294       |
| <b>Denominator:</b>                           |                              |                 |                                 |                 |
| Weighted-average shares outstanding – basic   | 21,118                       | 21,354          | 20,861                          | 21,620          |
| Dilutive effect of equity awards              | 689                          | 316             | 639                             | 412             |
| Weighted-average shares outstanding – diluted | 21,807                       | 21,670          | 21,500                          | 22,032          |

For the thirteen weeks ended October 2, 2018, there were no anti-dilutive shares of common stock equivalents. For the thirteen weeks ended October 3, 2017, there were approximately 1.1 million shares of common stock equivalents that were excluded from the calculation of diluted net income per share because they are anti-dilutive. For the thirty-nine weeks ended October 2, 2018 and October 3, 2017, there were approximately 0.02 million and 0.5 million shares of common stock equivalents, respectively, that were excluded from the calculation of diluted net income per share because they are anti-dilutive.

#### 5. RELATED PARTY

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

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



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

|                                 | For the Thirteen Weeks Ended |               |                  |               | For the Thirty-Nine Weeks Ended |               |                   |               |
|---------------------------------|------------------------------|---------------|------------------|---------------|---------------------------------|---------------|-------------------|---------------|
|                                 | October 2, 2018              |               | October 3, 2017  |               | October 2, 2018                 |               | October 3, 2017   |               |
| <b>Cost of sales:</b>           |                              |               |                  |               |                                 |               |                   |               |
| Third party suppliers           | \$ 47,553                    | 69.3%         | \$ 45,066        | 68.7%         | \$ 145,969                      | 69.3%         | \$ 138,089        | 68.9%         |
| Jacmar                          | 21,047                       | 30.7          | 20,487           | 31.3          | 64,628                          | 30.7          | 62,376            | 31.1          |
| Total cost of sales             | <u>\$ 68,600</u>             | <u>100.0%</u> | <u>\$ 65,553</u> | <u>100.0%</u> | <u>\$ 210,597</u>               | <u>100.0%</u> | <u>\$ 200,465</u> | <u>100.0%</u> |
| <b>Occupancy and operating:</b> |                              |               |                  |               |                                 |               |                   |               |
| Third party suppliers           | \$ 58,709                    | 96.1%         | \$ 52,913        | 95.8%         | \$ 170,350                      | 95.9%         | \$ 157,186        | 95.8%         |
| Jacmar                          | 2,393                        | 3.9           | 2,325            | 4.2           | 7,328                           | 4.1           | 6,868             | 4.2           |
| Total occupancy and operating   | <u>\$ 61,102</u>             | <u>100.0%</u> | <u>\$ 55,238</u> | <u>100.0%</u> | <u>\$ 177,678</u>               | <u>100.0%</u> | <u>\$ 164,054</u> | <u>100.0%</u> |

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

|                        | October 2, 2018  | January 2, 2018  |
|------------------------|------------------|------------------|
| Third party suppliers  | \$ 17,994        | \$ 18,738        |
| Jacmar                 | 3,866            | 6,537            |
| Total accounts payable | <u>\$ 21,860</u> | <u>\$ 25,275</u> |

## 6. STOCK-BASED COMPENSATION

Our current shareholder approved stock-based compensation plan is the 2005 Equity Incentive Plan (as amended from time to time, "the Plan"). Under the Plan, we may issue shares of our common stock to employees, officers, directors and consultants. We have granted incentive stock options, non-qualified stock options, and performance and time-based restricted stock units. Stock options and stock appreciation rights, if any, are charged against the Plan share reserve on the basis of one share for each share granted. Other types of grants, including RSUs, are currently charged against the Plan share reserve on the basis of 1.5 shares for each share granted. The Plan also contains other limits on the terms of incentive grants such as limits on the number that can be granted to an employee during any fiscal year. All options granted under the Plan expire within 10 years of their date of grant.

Under the Plan, we issue non-qualified stock options as well as time-based and performance-based RSUs to vice presidents and above. We issue time-based RSUs and/or non-qualified stock options to other support employees. We also issue RSUs, and previously issued non-qualified stock options, in connection with the BJ's Gold Standard Stock Ownership Program (the "GSSOP"). The GSSOP is a long-term equity incentive program for our restaurant general managers, executive kitchen managers, directors of operations and directors of kitchen operations. GSSOP grants are dependent on the length of each participant's service with us and position. All GSSOP participants are required to remain in good standing during their vesting period.

The Plan permits our Board of Directors to set the vesting terms and exercise period for awards at their discretion. Stock options and time-based RSUs vest ratably over three or five years for non-GSSOP participants and either cliff vest at five years or cliff vest at 33% on the third anniversary and 67% on the fifth anniversary for GSSOP participants. Performance-based RSUs generally cliff vest on the third anniversary of the grant date in an amount from 0% to 150% of the grant quantity, dependent on the level of performance target achievement.

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

|                            | For the Thirteen Weeks Ended |                 | For the Thirty-Nine Weeks Ended |                 |
|----------------------------|------------------------------|-----------------|---------------------------------|-----------------|
|                            | October 2, 2018              | October 3, 2017 | October 2, 2018                 | October 3, 2017 |
| Labor and benefits         | \$ 577                       | \$ 406          | \$ 1,699                        | \$ 1,404        |
| General and administrative | \$ 1,600                     | \$ 1,335        | \$ 4,559                        | \$ 3,867        |
| Capitalized (1)            | \$ 82                        | \$ 75           | \$ 244                          | \$ 218          |

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

### **Stock Options**

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

|                               | <b>For the Thirty-Nine Weeks Ended</b> |                        |
|-------------------------------|--|------------------------|
|                               | <b>October 2, 2018</b>                 | <b>October 3, 2017</b> |
| Expected volatility           | 33.6%                                  | 34.7%                  |
| Risk free interest rate       | 2.3%                                   | 1.9%                   |
| Expected option life          | 5 years                                | 5 years                |
| Dividend yield                | 1.5%                                   | 0%                     |
| Fair value of options granted | \$ 10.77                               | \$ 12.12               |

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

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

|                                | <b>Options Outstanding</b>       |  | <b>Options Exercisable</b>       |  |
|--------------------------------|----------------------------------|--|----------------------------------|--|
|                                | <b>Shares<br/>(in thousands)</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> | <b>Shares<br/>(in thousands)</b> | <b>Weighted<br/>Average<br/>Exercise<br/>Price</b> |
| Outstanding at January 2, 2018 | 1,311                            | \$ 32.68   | 926                              | \$ 30.02   |
| Granted                        | 177                              | 37.77  |                                  |  |
| Exercised                      | (864)                            | 29.74  |                                  |  |
| Forfeited                      | (23)                             | 39.71  |                                  |  |
| Outstanding at October 2, 2018 | <u>601</u>                       | <u>\$ 38.12</u>                                    | <u>198</u>                       | <u>\$ 37.33</u>                                    |

As of October 2, 2018, total unrecognized stock-based compensation expense related to non-vested stock options was approximately \$2.9 million, which is generally expected to be recognized over the next five years.

### **Restricted Stock Units**

#### *Time-Based Restricted Stock Units*

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

|                                | <b>Shares<br/>(in thousands)</b> | <b>Weighted<br/>Average<br/>Fair Value</b> |
|--------------------------------|----------------------------------|--|
| Outstanding at January 2, 2018 | 500                              | \$ 37.72                                   |
| Granted                        | 127                              | 43.63                                      |
| Vested or released             | (104)                            | 35.56                                      |
| Forfeited                      | (39)                             | 40.30                                      |
| Outstanding at October 2, 2018 | <u>484</u>                       | <u>\$ 39.52</u>                            |

The fair value of our time-based RSUs is equal to the fair value of our common stock at market close on the date of grant or the most recent trading day when grants take place on market holidays. The fair value of each time-based RSU is expensed over the vesting period (e.g., three or five years). As of October 2, 2018, total unrecognized stock-based compensation expense related to non-vested RSUs was approximately \$9.5 million, which is generally expected to be recognized over the next five years.

#### *Performance-Based Restricted Stock Units*

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

|                                | <b>Shares<br/>(in thousands)</b> | <b>Weighted<br/>Average<br/>Fair Value</b> |
|--------------------------------|----------------------------------|--|
| Outstanding at January 2, 2018 | 68                               | \$ 38.68                                   |
| Granted                        | 39                               | 37.70                                      |
| Vested or released             | —                                | —  |
| Forfeited                      | (1)                              | 38.66                                      |
| Outstanding at October 2, 2018 | <u>106</u>                       | <u>\$ 38.32</u>                            |

The fair value of our performance-based RSUs is equal to the fair value of our common stock at market close on the date of grant or the most recent trading day when grants take place on market holidays. The fair value of each performance-based RSU is expensed based on management's current estimate of the level that the performance goal will be achieved. As of October 2, 2018, based on the target level of performance, the total unrecognized stock-based compensation expense related to non-vested performance-based RSUs was approximately \$1.6 million, which is generally expected to be recognized over the next three years.

## **7. INCOME TAXES**

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

On December 22, 2017, the Tax Cuts and Jobs Act ("TCJA") was signed into law substantially amending the Internal Revenue Code of 1986. The TCJA made significant changes to the taxation of corporations such as the reduction of the highest corporate marginal tax rate from 35% to 21%, additional limitations on certain deductions for executive compensation, introducing an additional capital investment deduction, modifying rules for the deduction of interest expense, and modifying the rules regarding the utilization of net operating loss carryforwards. All relevant tax law changes have been and will be incorporated into this and subsequent interim provision calculations. We have made provisional estimates of the impact of the TCJA and, as of the thirty-nine weeks ended October 2, 2018, our accounting for the tax effects of TCJA is incomplete. We will continue to monitor the legislation and its impact on our business, and we will make adjustments to the recorded provisional amounts on the earlier of the period in which additional guidance is obtained and analyzed by year end.

As of October 2, 2018, we had unrecognized tax benefits of approximately \$1.5 million, of which approximately \$1.1 million, if reversed, would impact our effective tax rate.

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

|   | <b>For the Thirty-Nine Weeks Ended</b> |                        |
|---|--|------------------------|
|   | <b>October 2, 2018</b>                 | <b>October 3, 2017</b> |
| Gross unrecognized tax benefits at beginning of year  | \$ 1,516                               | \$ 1,245               |
| Increases for tax positions taken in prior years      | 8                                      | —                      |
| Decreases for tax positions taken in prior years      | (49)                                   | (3)                    |
| Increases for tax positions taken in the current year | 58                                     | 96                     |
| Lapse in statute of limitations                       | (58)                                   | (64)                   |
| Gross unrecognized tax benefits at end of year        | <u>\$ 1,475</u>                        | <u>\$ 1,274</u>        |

Our uncertain tax positions are related to tax years that remain subject to examination by tax agencies. As of October 2, 2018, the earliest tax year still subject to examination by the Internal Revenue Service is 2015. The earliest year still subject to examination by a significant state or local taxing jurisdiction is 2013.

## **8. LEGAL PROCEEDINGS**

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

## **9. SHAREHOLDERS' EQUITY**

### ***Stock Repurchases***

During the thirty-nine weeks ended October 2, 2018, we repurchased and retired approximately 0.2 million shares of our common stock at an average price of \$42.31 per share for a total of \$6.7 million, which is recorded as a reduction in common stock, with any excess charged to retained earnings. As of October 2, 2018, we have approximately \$35.9 million remaining under the current \$400 million share repurchase plan approved by our Board of Directors.

### ***Cash Dividends***

On July 23, 2018, our Board of Directors authorized and declared a quarterly cash dividend of \$0.11 per share of common stock that was paid on August 27, 2018, to shareholders of record at the close of business on August 13, 2018. While we intend to pay quarterly cash dividends, any future decisions to pay, increase or decrease cash dividends will be reviewed quarterly and declared by the Board of Directors at its discretion. Debt instruments that we enter into in the future may contain covenants that place limitations on the amount of dividends we may pay.

## **10. SUBSEQUENT EVENTS**

On October 22, 2018, our Board of Directors authorized and declared a quarterly cash dividend of \$0.12 (a \$0.01 or 9.1% increase from the prior quarter) per share of common stock payable on November 26, 2018, to shareholders of record at the close of business on November 12, 2018.

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

### **STATEMENT REGARDING FORWARD-LOOKING DISCLOSURE**

Certain information included in this Form 10-Q and other filings with the Securities and Exchange Commission, in our press releases, in other written communications, and in oral statements made by or with the approval of one of our authorized officers may contain "forward-looking" statements about our current and expected performance trends, growth plans, business

goals and other matters. Words or phrases such as “believe,” “plan,” “will likely result,” “expect,” “intend,” “will continue,” “is anticipated,” “estimate,” “project,” “may,” “could,” “would,” “should,” and similar expressions are 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, our Annual Report on Form 10-K for the fiscal year ended January 2, 2018, and our other reports filed from time to time with the Securities and Exchange Commission. Except for the historical information contained herein, the discussion in this Form 10-Q contains certain “forward-looking” statements that involve known and unknown risks and uncertainties, such as statements of our plans, objectives, expectations and intentions. The risks described in this Form 10-Q, as well as the risks identified in Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 2, 2018, are not the only risks we face. These statements reflect our current perspectives and outlook with respect to the Company’s future expansion plans, key business initiatives, expected operating conditions and other factors. We operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. Additional risks and uncertainties that we are currently unaware of, or that we currently deem immaterial, also may become important factors that affect us. It is not possible for us to predict the impact of all of these factors on our business, financial condition or results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any “forward-looking” statements. Given the volatility of the operating environment and its associated risks and uncertainties, investors should not rely on “forward-looking” statements as any prediction or guarantee of actual results.

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

- our restaurant concept, its competitive advantages and our strategies for its continued evolution and expansion;
- the rate and scope of our future restaurant development;
- the total domestic capacity for our restaurants;
- dates on which we will commence or complete the development and opening of new restaurants;
- expectations for consumer spending on casual dining restaurant occasions;
- the availability and cost of key commodities used in our restaurants and brewing operations;
- menu price increases and their effect, if any, on revenue and results of operations;
- the effectiveness of our planned operational, menu, marketing and capital expenditure initiatives;
- capital requirement expectations and actual or available borrowings on our line of credit;
- projected revenues, operating costs including commodities, labor and other expenses;
- projected share repurchases or shareholder dividend frequency and amount; and
- other statements of expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

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

- Failure to maintain a favorable image, credibility and the value of the BJ’s brand and our reputation for offering customers a higher quality more differentiated total dining experience at a good value may adversely affect our business.
- Any inability or failure to recognize, respond to and effectively manage the accelerated impact of social media may adversely affect our business.
- Any deterioration in general economic conditions may affect consumer spending and adversely affect our revenues, operating results and liquidity.

- Any deterioration in general economic conditions, which may also have a material adverse impact on our landlords or on businesses neighboring our locations, may adversely affect our revenues and results of operations.
- Any inability to open new restaurants on schedule in accordance with our targeted capacity growth or problems associated with securing suitable restaurant locations, leases and licenses, recruiting and training qualified managers and hourly employees and other factors, some of which are beyond our control and difficult to forecast accurately may adversely affect our operation.
- Any inability to access sources of capital and or to raise capital in the future may adversely affect our business.
- Any failure of our existing or new restaurants to achieve expected results may have a negative impact on our consolidated financial results.
- Any strain on our infrastructure and resources due to growth, which may slow our development of new restaurants may adversely affect our ability to manage our existing restaurants.
- Any decision to either reduce or accelerate the pace of openings may positively or adversely affect our comparative financial performance.
- Expenditures required to open new restaurants may adversely affect our future operating results.
- Our concentration of a significant number of our restaurants in California, Texas and Florida makes us particularly sensitive to economic, regulatory, weather and other risk factors and conditions that are more prevalent in those states.
- Any negative publicity about us, our restaurants, other restaurants, or others across the food supply chain, due to food borne illness or other reasons, whether or not accurate may adversely affect the reputation and popularity of our restaurants and our results of operations.
- Any adverse changes in the cost of food, labor and related employee benefits (including, but not limited to, group health insurance coverage for our employees), brewing and energy may adversely affect our operating results.
- Any adverse changes in the supply of food, labor, brewing, energy and other expenses may adversely affect our operating results.
- Any inability of our internal or independent third party brewers to timely supply our beer may adversely affect our operating results.
- Periodic reviews and audits of our internal brewing, independent third party brewing and beer distribution arrangements by various federal, state and local governmental and regulatory agencies may adversely affect our operations and our operating results.
- Government laws and regulations affecting the operation of our restaurants, including but not limited to those that apply to the acquisition and maintenance of our brewing and retail liquor licenses, minimum wages, federal or state exemption rules, health insurance coverage, or other employment benefits such as paid time off, consumer health and safety, nutritional disclosures, and employment eligibility-related documentation requirements may cause disruptions to our operations, adversely affect our operating costs and restrict our growth.
- Heavy dependence of our operations, including our loyalty and employee engagement programs, on information technology may adversely affect our revenues and impair our ability to efficiently operate our business if there is a material failure of such technology.
- Unsolicited takeover proposals, governance change proposals, proxy contests and certain proposals/actions by activist investors may create additional risks and uncertainties with respect to the Company's financial position, operations, strategies and management, and may adversely affect our ability to attract and retain key employees. Any perceived uncertainties may affect the market price and volatility of our securities.
- Any suspension of or failure to pay regular dividends or to repurchase the Company's stock up to the maximum amounts permitted under our previously announced repurchase program, either of which may negatively impact investor perceptions of us and may affect the market price and volatility of our stock.

For a more detailed description of these risk factors and other considerations, see Part II, Item 1A – “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended January 2, 2018.

## GENERAL

As of November 5, 2018, we owned and operated 201 restaurants located in the 27 states of Alabama, Arizona, Arkansas, California, Colorado, Florida, Indiana, Kansas, Kentucky, Louisiana, Maryland, Michigan, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Virginia and Washington. Each of our restaurants is operated either as a BJ's Restaurant & Brewhouse®, a BJ's Restaurant & Brewery®, a BJ's Pizza & Grill®, or a BJ's Grill® restaurant. Currently, the BJ's Restaurant & Brewhouse® format represents the majority of our restaurants and is our primary expansion vehicle. Our BJ's Restaurant & Brewery locations are similar in size to our BJ's Restaurant & Brewhouse locations, except that they have brewing operations attached to the restaurant. Our BJ's Pizza & Grill® restaurants are smaller format, full-service restaurants which reflect the original format of the BJ's restaurant concept that was first introduced in 1978. Our BJ's Grill® restaurant is a slightly smaller footprint restaurant than our BJ's Restaurant & Brewhouse® format but still features all the amenities of our Brewhouse locations. Our proprietary craft beer is available in all of our restaurants and produced at several of our BJ's Restaurant & Brewery® locations, our Temple, Texas brewpub locations and by independent third party brewers using our proprietary recipes.

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

Our revenues are comprised of food and beverage sales at our restaurants. Revenues from restaurant sales are recognized when payment is tendered at the point of sale. Amounts paid with a credit card are recorded in accounts and other receivables until payment is collected. Gift card sales are recorded as a liability and recognized as revenues upon redemption in our restaurants. Estimated gift card breakage is recorded as revenue and recognized in proportion to our historical redemption pattern. The estimated gift card breakage is based on when the likelihood of redemption becomes remote, which has typically been 24 months after the original gift card issuance date. For our customer loyalty program, we allocate the transaction price between the goods delivered and the future goods that will be delivered, on a relative standalone selling price basis, and defer the revenues allocated to the points until such points are redeemed.

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

Cost of sales is comprised of food and beverage costs, including the cost to produce and distribute our proprietary craft beer, soda and ciders. The components of cost of sales are variable and typically fluctuate directly with sales volumes, but may be impacted by changes in commodity prices, a shift in sales mix to higher cost proteins or other higher cost items, or varying levels of promotional activities.

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

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

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

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

Restaurant opening expenses, which are expensed as incurred, consist of the costs of hiring and training the initial hourly work force for each new restaurant, travel, the cost of food and supplies used in training, grand opening promotional costs, the cost

of the initial stock of operating supplies and other direct costs related to the opening of a restaurant, including rent during the construction and in-restaurant training period.

While we currently expect to pursue the renewal of substantially all of our expiring restaurant leases, there is no guarantee that we can obtain a new lease that is satisfactory to our landlord and us or that, if renewed, rents will not increase substantially.

## RESULTS OF OPERATIONS

The following table provides, for the periods indicated, our unaudited Consolidated Statements of Income expressed as percentages of total revenues. The results of operations for the thirteen and thirty-nine weeks ended October 2, 2018 and October 3, 2017, are not necessarily indicative of the results to be expected for the full fiscal year. Percentages below may not reconcile due to rounding.

|   | For the Thirteen Weeks Ended |                 | For the Thirty-Nine Weeks Ended |                 |
|---|------------------------------|-----------------|---------------------------------|-----------------|
|   | October 2, 2018              | October 3, 2017 | October 2, 2018                 | October 3, 2017 |
| Revenues  | 100.0%                       | 100.0%          | 100.0%                          | 100.0%          |
| Restaurant operating costs (excluding depreciation and amortization): |                              |                 |                                 |                 |
| Cost of sales   | 25.4                         | 26.5            | 25.2                            | 26.0            |
| Labor and benefits  | 36.7                         | 36.9            | 36.0                            | 36.0            |
| Occupancy and operating   | 22.6                         | 22.4            | 21.2                            | 21.3            |
| General and administrative  | 5.4                          | 5.3             | 5.5                             | 5.4             |
| Depreciation and amortization   | 6.5                          | 7.1             | 6.3                             | 6.6             |
| Restaurant opening  | 0.1                          | 0.2             | 0.2                             | 0.4             |
| Loss on disposal of assets and impairments                            | 0.3                          | 0.4             | 0.4                             | 0.5             |
| Natural disaster and related  | —                            | 0.4             | —                               | 0.1             |
| Severance and legal settlements                                       | —                            | 0.2             | —                               | 0.1             |
| Total costs and expenses  | 97.1                         | 99.4            | 94.8                            | 96.5            |
| Income from operations  | 2.9                          | 0.6             | 5.2                             | 3.5             |
| Other (expense) income:   |                              |                 |                                 |                 |
| Interest expense, net   | (0.4)                        | (0.5)           | (0.5)                           | (0.4)           |
| Other income, net   | 0.1                          | 0.2             | —                               | 0.2             |
| Total other expense   | (0.3)                        | (0.3)           | (0.4)                           | (0.2)           |
| Income before income taxes  | 2.6                          | 0.3             | 4.8                             | 3.3             |
| Income tax (benefit) expense  | (0.5)                        | (0.6)           | 0.0                             | 0.5             |
| Net income  | 3.2%                         | 1.0%            | 4.8%                            | 2.8%            |

### *Thirteen Weeks Ended October 2, 2018 Compared to Thirteen Weeks Ended October 3, 2017*

*Revenues.* Total revenues increased by \$23.3 million, or 9.4%, to \$270.3 million during the thirteen weeks ended October 2, 2018, from \$247.0 million during the comparable thirteen week period of 2017. The increase in revenues primarily consisted of a \$6.6 million increase in sales from new restaurants not yet in our comparable restaurant sales base, a 6.9%, or \$16.4 million, increase in comparable restaurant sales and \$0.3 million in gift card breakage revenue. The increase in comparable restaurant sales resulted from an increase in average check of approximately 4.3%, coupled with an increase in customer traffic of approximately 2.6%.

*Cost of Sales.* Cost of sales increased by \$3.0 million, or 4.6%, to \$68.6 million during the thirteen weeks ended October 2, 2018, from \$65.6 million during the comparable thirteen week period of 2017. This increase was primarily due to the opening of six new restaurants since the thirteen weeks ended October 3, 2017. As a percentage of revenues, cost of sales decreased to 25.4% for the current thirteen week period from 26.5% for the prior year comparable period. This percentage decrease is primarily due to higher menu pricing and lower commodity costs.



*Labor and Benefits.* Labor and benefit costs for our restaurants increased by \$7.8 million, or 8.6%, to \$99.1 million during the thirteen weeks ended October 2, 2018, from \$91.2 million during the comparable thirteen week period of 2017. This increase was primarily due to the opening of six new restaurants since the thirteen weeks ended October 3, 2017. As a percentage of revenues, labor and benefit costs decreased to 36.7% for the current thirteen week period from 36.9% for the prior year comparable period. This percentage decrease is primarily due to our ability to leverage the fixed component of these expenses resulting from comparable restaurant sales increases, partially offset by higher incentive compensation as a result of our performance, higher hourly labor rates and higher workers compensation costs. Included in labor and benefits for the thirteen weeks ended October 2, 2018 and October 3, 2017, was approximately \$0.6 million and \$0.4 million, respectively, or 0.2% of revenues, of stock-based compensation expense related to equity awards granted in accordance with our Gold Standard Stock Ownership Program for certain restaurant management team members.

*Occupancy and Operating.* Occupancy and operating expenses increased by \$5.9 million, or 10.6%, to \$61.1 million during the thirteen weeks ended October 2, 2018, from \$55.2 million during the comparable thirteen week period of 2017. This increase was primarily due to the opening of six new restaurants since the thirteen weeks ended October 3, 2017 and increased marketing expenses. As a percentage of revenues, occupancy and operating expenses increased to 22.6% for the current thirteen week period from 22.4% for the prior year comparable period. This percentage increase was primarily due to increased marketing and commissions to third party delivery companies, partially offset by our ability to leverage the fixed component of these expenses resulting from comparable restaurant sales increases.

*General and Administrative.* General and administrative expenses increased by \$1.6 million, or 12.5%, to \$14.7 million during the thirteen weeks ended October 2, 2018, from \$13.0 million during the comparable thirteen week period of 2017. Also included in general and administrative costs for the thirteen weeks ended October 2, 2018 and October 3, 2017, was approximately \$1.6 million and \$1.3 million, or 0.6% and 0.5% of revenues, of stock-based compensation expense, respectively. As a percentage of revenues, general and administrative expenses increased to 5.4% for the current thirteen week period from 5.3% for the prior year comparable period. This percentage increase was primarily due to higher incentive compensation expense based on our performance to date, partially offset by our ability to leverage the fixed component of these expenses over a higher revenue base from new restaurants and our comparable restaurant sales increase.

*Depreciation and Amortization.* Depreciation and amortization increased by \$0.3 million, or 1.5%, to \$17.7 million during the thirteen weeks ended October 2, 2018, compared to \$17.4 million during the comparable thirteen week period of 2017. This increase was primarily due to depreciation expense related to the six new restaurants opened since the thirteen weeks ended October 3, 2017. As a percentage of revenues, depreciation and amortization decreased to 6.5% for the current thirteen week period from 7.1% for the prior year comparable period. This percentage decrease was primarily due to our ability to leverage the fixed component of these expenses over a higher revenue base from new restaurants and our comparable restaurant sales increase.

*Restaurant Opening.* Restaurant opening expense decreased by \$0.1 million, or 24.5%, to \$0.4 million during the thirteen weeks ended October 2, 2018, compared to \$0.5 million during the comparable thirteen week period of 2017. This decrease is primarily due to the timing of openings.

*Loss on Disposal and Impairment of Assets.* Loss on disposal and impairment of assets decreased by \$0.2 million, or 19.2%, to \$0.9 million during the thirteen weeks ended October 2, 2018, compared to \$1.1 million during the comparable thirteen week period of 2017. These costs primarily relate to the disposal of certain unproductive restaurant assets.

*Interest Expense, Net.* Interest expense, net, decreased by \$0.1 million to \$1.1 million during the thirteen weeks ended October 2, 2018, compared to \$1.2 million during the comparable thirteen week period of 2017. This decrease was due to a lower debt balance during the thirteen weeks ended October 2, 2018, compared to the comparable thirteen week period of 2017.

*Other Income, Net.* Other income, net, decreased by \$0.2 million to \$0.2 million during the thirteen weeks ended October 2, 2018, compared to other income of \$0.4 million during the comparable thirteen week period of 2017. This decrease was primarily due to the adoption of ASU 2016-10, resulting in the reclassification of gift card breakage from other income to revenues.

*Income Tax Benefit.* Our effective income tax rate for the thirteen weeks ended October 2, 2018, was -20.4% primarily due to recurring federal tax credits and a \$1.7 million excess tax benefit from equity awards, coupled with lower federal tax rates resulting from the 2017 Tax Cut and Jobs Act. The Company's expected effective tax rate before stock compensation excess tax benefits is approximately 10%, and the difference between the expected tax rate and the tax expense for the thirteen weeks ended October 2, 2018, is due to excess stock compensation benefits accounted for in a discrete manner.

### ***Thirty-Nine Weeks Ended October 2, 2018 Compared to Thirty-Nine Weeks Ended October 3, 2017***

***Revenues.*** Total revenues increased by \$65.8 million, or 8.5%, to \$836.4 million during the thirty-nine weeks ended October 2, 2018, from \$770.6 million during the comparable thirty-nine week period of 2017. The increase in revenues primarily consisted of an \$25.2 million increase in sales from new restaurants not yet in our comparable restaurant sales base, a 5.5%, or \$40.8 million, increase in comparable restaurant sales and \$1.1 million in gift card breakage revenue, offset by \$1.3 million of revenues which have been deferred until the related loyalty points are redeemed in accordance with ASU 2016-10, which was adopted at the beginning of fiscal 2018. The increase in comparable restaurant sales resulted from an increase in average check of approximately 3.7%, coupled with an increase in customer traffic of approximately 1.8%.

***Cost of Sales.*** Cost of sales increased by \$10.1 million, or 5.1%, to \$210.6 million during the thirty-nine weeks ended October 2, 2018, from \$200.5 million during the comparable thirty-nine week period of 2017. This increase was primarily due to the opening of six new restaurants since the thirty-nine weeks ended October 3, 2017. As a percentage of revenues, cost of sales decreased to 25.2% for the current thirty-nine week period from 26.0% for the prior year comparable period. This percentage decrease is primarily due to higher menu pricing and less discounting compared to prior year.

***Labor and Benefits.*** Labor and benefit costs for our restaurants increased by \$23.8 million, or 8.6%, to \$301.5 million during the thirty-nine weeks ended October 2, 2018, from \$277.7 million during the comparable thirty-nine week period of 2017. This increase was primarily due to the opening of six new restaurants since the thirty-nine weeks ended October 3, 2017. As a percentage of revenues, labor and benefit costs remained stable at 36.0% for both the current thirty-nine week period and for the prior year comparable period. This was primarily due to higher restaurant incentive compensation, higher hourly labor rates, workers compensation costs and average hourly wages, partially offset by our ability to leverage the fixed component of these expenses resulting from comparable restaurant sales increases. Included in labor and benefits for the thirty-nine weeks ended October 2, 2018 and October 3, 2017, was approximately \$1.7 million and \$1.4 million, respectively, or 0.2% of revenues, of stock-based compensation expense related to equity awards granted in accordance with our Gold Standard Stock Ownership Program for certain restaurant management team members.

***Occupancy and Operating.*** Occupancy and operating expenses increased by \$13.6 million, or 8.3%, to \$177.7 million during the thirty-nine weeks ended October 2, 2018, from \$164.1 million during the comparable thirty-nine week period of 2017. This increase was primarily due to the opening of six new restaurants since the thirty-nine weeks ended October 2, 2018 coupled with increased commissions to third party delivery companies. As a percentage of revenues, occupancy and operating expenses decreased to 21.2% for the current thirty-nine week period from 21.3% for the prior year comparable period. This percentage decrease was primarily due to our ability to leverage the fixed component of these expenses resulting from comparable restaurant sales increases, partially offset by increased fees related to delivery sales.

***General and Administrative.*** General and administrative expenses increased by \$4.1 million, or 9.9%, to \$45.6 million during the thirty-nine weeks ended October 2, 2018, from \$41.5 million during the comparable thirty-nine week period of 2017. Also included in general and administrative costs for the thirty-nine weeks ended October 2, 2018 and October 3, 2017, was approximately \$4.6 million and \$3.9 million, respectively, or 0.5% of revenues, of stock-based compensation expense. As a percentage of revenues, general and administrative expenses increased to 5.5% for the current thirty-nine week period from 5.4% for the prior year comparable period. This percentage increase was primarily due higher incentive compensation expense based on our performance to date, partially offset by our ability to leverage the fixed component of these expenses over a higher revenue base from new restaurants and our comparable restaurant sales increase.

***Depreciation and Amortization.*** Depreciation and amortization increased by \$1.5 million, or 3.0%, to \$52.8 million during the thirty-nine weeks ended October 2, 2018, compared to \$51.2 million during the comparable thirty-nine week period of 2017. This increase was primarily due to depreciation expense related to the six new restaurants opened since the thirty-nine weeks ended October 3, 2017. As a percentage of revenues, depreciation and amortization decreased to 6.3% for the current thirty-nine week period from 6.6% for the prior year comparable period. This percentage decrease was primarily due to our ability to leverage the fixed component of these expenses over a higher revenue base from new restaurants and our comparable restaurant sales increase.

***Restaurant Opening.*** Restaurant opening expense decreased by \$1.4 million, or 42.7%, to \$1.8 million during the thirty-nine weeks ended October 2, 2018, compared to \$3.2 million during the comparable thirty-nine week period of 2017. This decrease was due to the opening of four new restaurant during the thirty-nine weeks ended October 2, 2018, compared to eight new restaurants during the comparable thirty-nine week period of 2017.

***Loss on Disposal and Impairment of Assets.*** Loss on disposal and impairment of assets decreased by \$1.1 million, or 26.8%, to \$3.0 million during the thirty-nine weeks ended October 2, 2018, compared to \$4.2 million during the comparable thirty-nine

week period of 2017. These costs primarily relate to the disposal of certain unproductive restaurant assets. This decrease is primarily due to the write-off of the remaining net book value of certain convection ovens and point of sale terminals, during the thirty-nine weeks ended October 3, 2017, following the rollout of our new slow roasting ovens and server handheld point of sale tablets.

*Natural Disaster and Related.* Natural disaster and related expense of \$0.9 million during the thirty-nine weeks ended October 3, 2017, related to property damages, food spoilage, labor and other expenses from Hurricanes Harvey and Irma, in excess of our related insurance coverage.

*Severance and Legal Settlements.* Severance and legal settlements of \$0.4 million during the thirty-nine weeks ended October 3, 2017 related to a reorganization at the Company's restaurant support center.

*Interest Expense, Net.* Interest expense, net, increased by \$0.6 million to \$3.8 million during the thirty-nine weeks ended October 2, 2018, compared to \$3.2 million during the comparable thirty-nine week period of 2017. This increase was due to higher interest rates during the thirty-nine weeks ended October 2, 2018, compared to the comparable thirty-nine week period of 2017.

*Other Income, Net.* Other income, net, decreased by \$1.3 million to \$0.2 million during the thirty-nine weeks ended October 2, 2018, compared to other income of \$1.5 million during the comparable thirty-nine week period of 2017. This decrease was primarily due to the adoption of ASU 2016-10, resulting in the reclassification of gift card breakage from other income to revenues.

*Income Tax (Benefit) Expense.* Our effective income tax rate for the thirty-nine weeks ended October 2, 2018, was -0.9% compared to 15.6% for the comparable thirty-nine week period of 2017. The income tax benefit for the thirty-nine weeks ended October 2, 2018 is primarily due to recurring federal tax credits and a \$3.8 million excess tax benefit from equity awards, coupled with lower federal tax rates resulting from the 2017 Tax Cut and Jobs Act. The Company's expected effective tax rate before stock compensation excess tax benefits is approximately 10%, and the difference between the expected tax rate and the tax expense for the thirty-nine weeks ended October 2, 2018, is due to excess stock compensation benefits accounted for in a discrete manner.

## LIQUIDITY AND CAPITAL RESOURCES

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

|                           | <b>October 2, 2018</b> | <b>January 2, 2018</b> |
|---------------------------|------------------------|------------------------|
| Cash and cash equivalents | \$ 25,632              | \$ 24,335              |
| Net working capital       | \$ (62,446)            | \$ (62,212)            |
| Current ratio             | 0.5:1.0                | 0.5:1.0                |

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

We currently estimate the total domestic capacity for BJ's restaurants to be at least 425, given the size of our current restaurant prototype and the current structure of the BJ's concept and menu. We expect to fund our growth plans using cash from our ongoing operations, our cash balance on hand, proceeds from employee stock option exercises, tenant improvement allowances from our landlords and our \$250 million Credit Facility. Depending on the expected level of new restaurant development, tenant improvement allowances that we receive from our landlords, other planned capital investments including ongoing maintenance capital expenditures, and results from our ongoing operations, we may not generate enough cash flow from operations to completely fund our plans. In addition, share repurchases and our quarterly cash dividend or any significant increases in such repurchases or dividends may impact our available capital resources. Accordingly, we continue to actively monitor overall conditions in the capital and credit markets with respect to the potential sources and the timing of additional financing in order to enhance total shareholder return. However, there can be no assurance that such financing will be available when required or available on terms acceptable to us. If we are unable to secure additional capital resources, when needed, we may be required to reduce our planned rate of expansion, share repurchases, quarterly cash dividends or other shareholder return initiatives.

Similar to many restaurant chains, we typically utilize operating lease arrangements (principally ground leases) for the majority of our restaurant locations. We believe our operating lease arrangements provide appropriate leverage for our capital structure in a financially efficient manner. However, we are not limited to the use of lease arrangements as our only method of opening new restaurants and from time to time have purchased the underlying land for new restaurants. While our operating lease obligations currently are not required to be reflected as indebtedness on our Consolidated Balance Sheets, the minimum rents and other related lease obligations, such as common area expenses, under our lease agreements must be satisfied by cash flows from our ongoing operations. Accordingly, our lease arrangements reduce, to some extent, our capacity to utilize debt in our capital structure.

We typically lease our restaurant locations for periods of 10 to 20 years under operating lease arrangements. Our rent structures vary from lease to lease, but generally provide for the payment of both minimum and contingent (percentage) rent based on sales, as well as other expenses related to the leases (for example, our pro-rata share of common area maintenance, property tax and insurance expenses). Many of our lease arrangements include the opportunity to secure tenant improvement allowances to partially offset the cost of developing and opening the related restaurants. Generally, landlords recover the cost of such allowances from increased minimum rents. However, there can be no assurance that such allowances will be available to us on each project. From time to time, we may also decide to purchase the underlying land for a new restaurant if that is the only way to secure a highly desirable site. Currently, we own the underlying land for one of our restaurants and our Texas brewpub locations. We also own two parcels of land adjacent to two of our restaurants. It is not our current strategy to own a large number of land parcels that underlie our restaurants. Therefore, in many cases we have subsequently entered into sale-leaseback arrangements for land parcels that we previously purchased. We disburse cash for certain site-related work, buildings, leasehold improvements, furnishings, fixtures and equipment to build our leased and owned premises. We own substantially all of the equipment, furniture and trade fixtures in our restaurants and currently plan to do so in the future.

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

## CASH FLOWS

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

|   | <b>For the Thirty-Nine Weeks Ended</b> |                        |
|---|--|------------------------|
|   | <b>October 2, 2018</b>                 | <b>October 3, 2017</b> |
| Net cash provided by operating activities | \$ 94,988                              | \$ 69,054              |
| Net cash used in investing activities     | (36,879)                               | (52,619)               |
| Net cash used in financing activities     | (56,812)                               | (10,502)               |
| Net increase in cash and cash equivalents | <u>\$ 1,297</u>                        | <u>\$ 5,933</u>        |

### *Operating Cash Flows*

Net cash provided by operating activities was \$95.0 million during the thirty-nine weeks ended October 2, 2018, representing a \$25.9 million increase from the \$69.1 million provided during the thirty-nine weeks ended October 3, 2017. The increase in cash from operating activities for the thirty-nine weeks ended October 2, 2018, in comparison the thirty-nine weeks ended October 3, 2017, is primarily due to higher net income, coupled with the timing of accrued expenses, offset by the change in deferred income taxes.

### *Investing Cash Flows*

Net cash used in investing activities was \$36.9 million during the thirty-nine weeks ended October 2, 2018, representing a \$15.7 million decrease from the \$52.6 million used during the thirty-nine weeks ended October 3, 2017. The decrease over prior year is primarily due to fewer new restaurant openings and less key productivity initiative capital expenditures.

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

|   | <b>For the Thirty-Nine Weeks Ended</b> |                        |
|---|--|------------------------|
|   | <b>October 2, 2018</b>                 | <b>October 3, 2017</b> |
| New restaurants   | \$ 22,833                              | \$ 31,068              |
| Restaurant maintenance and key productivity initiatives | 19,138                                 | 25,680                 |
| Restaurant and corporate systems                        | 409                                    | 610                    |
| Total capital expenditures                              | <u>\$ 42,380</u>                       | <u>\$ 57,358</u>       |

As of November 5, 2018, we have opened four restaurants and we expect to open one additional restaurant later this quarter. We expect to open seven to nine restaurants in fiscal 2019, and we have entered into signed leases, land purchase agreements or letters of intent for all of our 2019 potential restaurant locations. Our new restaurant unit economics remain solid, and we will continue to balance new restaurant growth with our commitment to drive shareholder returns through our share repurchases program and quarterly cash dividends.

We currently anticipate our total capital expenditures for fiscal 2018 to be approximately \$60 million to \$65 million and fiscal 2019 to be approximately \$70 million to \$80 million. We expect to fund our anticipated capital expenditures for the remainder of fiscal 2018 and fiscal 2019 with our current cash balance on hand, expected cash flows from operations, expected tenant improvement allowances and our line of credit. Our future cash requirements will depend on many factors, including the pace of our expansion, conditions in the retail property development market, construction costs, the nature of the specific sites selected for new restaurants, and the nature of the specific leases and associated tenant improvement allowances available, if any, as negotiated with landlords.

#### **Financing Cash Flows**

Net cash used in financing activities was \$56.8 million during the thirty-nine weeks ended October 2, 2018, representing a \$46.3 million increase from the \$10.5 million used during the thirty-nine weeks ended October 3, 2017. The increase in cash used over prior year is primarily due to higher debt repayment during the thirty-nine weeks ended October 2, 2018.

We have a \$250 million unsecured revolving line of credit that expires on November 18, 2021, and may be used for working capital and other general corporate purposes. We utilize the Credit Facility principally for letters of credit that are required to support certain of our self-insurance programs, to fund a portion of our stock repurchase program and quarterly cash dividend and for working capital and construction requirements. While we intend to pay regular quarterly cash dividends in the future, any decisions to pay, increase or decrease cash dividends will be reviewed quarterly and declared by the Board of Directors at its discretion. Debt instruments that we enter into in the future may contain covenants that place limitations on the amount of dividends we may pay.

As of October 2, 2018, we have cumulatively repurchased shares valued at approximately \$364.1 million in accordance with our approved share repurchase plan. We repurchased shares valued at approximately \$6.7 million during the thirty-nine weeks ended October 2, 2018. The share repurchases were executed through open market purchases, and future share repurchases may be completed through the combination of individually negotiated transactions, accelerated share buyback, and/or open market purchases. As of October 2, 2018, we have approximately \$35.9 million available under our share repurchase plan. Our Credit Facility does not contain any restrictions on the amount of borrowings that can be used to make share repurchases, or on the amount of dividends we pay, 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 October 2, 2018, we are not involved in any off-balance sheet arrangements.

#### **IMPACT OF INFLATION**

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

seafood and most fresh produce items for long periods of time. Consequently, such commodities can be subject to unforeseen supply and cost fluctuations.

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

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

#### **SEASONALITY AND ADVERSE WEATHER**

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

#### **CRITICAL ACCOUNTING POLICIES**

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

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

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

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

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

We have a \$250 million unsecured Credit Facility of which \$95.0 million is currently outstanding that carries interest at a floating rate. We utilize the Credit Facility principally for letters of credit that are required to support our self-insurance programs, to fund a portion of our announced stock repurchase program and for working capital and construction requirements, as needed. We are exposed to interest rate risk through fluctuations in interest rates on our obligations under the Credit Facility.

Based on our current outstanding balance, a hypothetical 1% change in the interest rates under our Credit Facility would have an approximate \$0.7 million annual impact on our net income.

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

We purchase food and other commodities for use in our operations based upon market prices established with our suppliers. Many of the commodities purchased by us can be subject to volatility due to market supply and demand factors outside of our control, whether contracted for or not. Costs can also fluctuate due to government regulation. To manage this risk in part, we attempt to enter into fixed-price purchase commitments, with terms typically up to one year, for some of our commodity requirements. However, it may not be possible for us to enter into fixed-price contracts for certain commodities or we may choose not to enter into fixed-price contracts for certain commodities. We believe that substantially all of our food and supplies are available from several sources, which helps to diversify our overall commodity cost risk. We also believe that we have some flexibility and ability to increase certain menu prices, or vary certain menu items offered or promoted, in response to food commodity price increases. Some of our commodity purchase arrangements may contain contractual features that limit the price paid by establishing certain price floors or caps. We do not use financial instruments to hedge commodity prices, since 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 October 2, 2018, our disclosure controls and procedures are designed and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

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

## **PART II. OTHER INFORMATION**

#### **Item 1. LEGAL PROCEEDINGS**

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

#### **Item 1A. RISK FACTORS**

A discussion of the significant risks associated with investments in our securities, as well as other matters, is set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 2, 2018. A summary of these risks and certain related information is included under "Statement Regarding Forward-Looking Disclosure" in Part I, Item 2 of this Form 10-Q and is incorporated herein by this reference. These cautionary statements are to be used as a reference in connection with any "forward-looking" statements. The factors, risks and uncertainties identified in these cautionary statements are in addition to those contained in any other cautionary statements, written or oral, which may be made or otherwise addressed in connection with a "forward-looking" statement or contained in any of our subsequent filings with the SEC. The risks described in this Form 10-Q and in our Annual Report on Form 10-K are not the only risks we face. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. There may be other risks and uncertainties that are not currently known or that are currently deemed by us to be immaterial; however, they may ultimately adversely affect our business, financial condition and/or operating results.

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

As of October 2, 2018, we have cumulatively repurchased shares valued at approximately \$364.1 million in accordance with our approved share repurchase plan. Approximately \$6.7 million of these shares were repurchased during the thirty-nine weeks ended October 2, 2018. The share repurchases were executed through open market purchases, and future share repurchases may be completed through the combination of individually negotiated transactions, accelerated share buyback, and/or open market purchases. As of October 2, 2018, we have approximately \$35.9 million available under the current \$400 million share repurchase plan approved by our Board of Directors. Our Credit Facility does not contain any restrictions on the amount of borrowings that can be used to make share repurchases as long as we are in compliance with our financial and non-financial covenants.

The following table sets forth information with respect to the repurchase of common shares during the thirty-nine weeks ended October 2, 2018:

| <b>Period (1)</b>   | <b>Total Number of Shares Purchased</b> | <b>Average Price Paid Per Share</b> | <b>Total Number of Shares Purchased as Part of the Publicly Announced Plans</b> | <b>Increase in Dollars for Share Repurchase Authorization</b> | <b>Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b> |
|---------------------|---|-------------------------------------|---|---|---|
| 01/03/18 – 01/30/18 | 25,766                                  | \$ 36.85                            | 25,766  | \$ —  | \$ 41,593,499   |
| 01/31/18 – 02/27/18 | 22,449                                  | \$ 36.83                            | 22,449  | \$ —  | \$ 40,766,591   |
| 02/28/18 – 04/03/18 | 86,399                                  | \$ 43.86                            | 86,399  | \$ —  | \$ 36,976,773   |
| 04/04/18 – 05/01/18 | 14,031                                  | \$ 44.62                            | 14,031  | \$ —  | \$ 36,350,665   |
| 05/02/18 – 05/29/18 | 9,498                                   | \$ 52.50                            | 9,498   | \$ —  | \$ 35,852,051   |
| 05/30/18 – 07/03/18 | —                                       | \$ —                                | —   | \$ —  | \$ 35,852,051   |
| 07/04/18 – 07/31/18 | —                                       | \$ —                                | —   | \$ —  | \$ 35,852,051   |
| 08/01/18 – 08/28/18 | —                                       | \$ —                                | —   | \$ —  | \$ 35,852,051   |
| 08/29/18 – 10/02/18 | —                                       | \$ —                                | —   | \$ —  | \$ 35,852,051   |
| <b>Total</b>        | <b>158,143</b>                          | <b>\$ 42.31</b>                     | <b>158,143</b>  |   |   |

(1) Period information is presented in accordance with our fiscal months during the thirty-nine weeks ended October 2, 2018.



**Item 6. EXHIBITS**

| <b>Exhibit<br/>Number</b> | <b>Description</b>  |
|---------------------------|---|
| 3.1                       | <a href="#"><u>Amended and Restated Articles of Incorporation of the Company, incorporated by reference to Exhibit 3.1 of the Annual Report on Form 10-K for fiscal 2017.</u></a>   |
| 3.2                       | <a href="#"><u>Amended and Restated Bylaws of the Company, incorporated by reference to Exhibits 3.1 of the Form 8-K filed on June 4, 2007.</u></a>   |
| 3.3                       | <a href="#"><u>Certificate of Amendment of Articles of Incorporation, incorporated by reference to Exhibit 3.3 of the Annual Report on Form 10-K for fiscal 2004.</u></a>   |
| 3.4                       | <a href="#"><u>Certificate of Amendment of Articles of Incorporation, incorporated by reference to Exhibit 3.4 of the Annual Report on Form 10-K for fiscal 2010.</u></a>   |
| 4.1                       | <a href="#"><u>Specimen Common Stock Certificate of the Company, incorporated by reference to Exhibit 4.1 of the Company's Registration Statement on Form SB-2A filed with the Securities and Exchange Commission on August 22, 1996 (File No. 3335182-LA).</u></a>   |
| 31                        | <a href="#"><u>Section 302 Certification of Chief Executive Officer and Chief Financial Officer.</u></a>  |
| 32                        | <a href="#"><u>Section 906 Certification of Chief Executive Officer and Chief Financial Officer.</u></a>  |
| 101                       | The following materials from BJ's Restaurants, Inc.'s Quarterly Report on Form 10-Q for the quarter ended October 2, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Unaudited Consolidated Statements of Income; (iii) Unaudited Consolidated Statements of Cash Flows; and (iv) Notes to Unaudited Consolidated Financial Statements. |

**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 5, 2018

By: /s/ GREGORY A. TROJAN

Gregory A. Trojan  
Chief Executive Officer  
(Principal Executive Officer)

By: /s/ GREGORY S. LEVIN

Gregory S. Levin  
President, Chief Financial Officer and Secretary  
(Principal Financial and Accounting Officer)

## BJ'S RESTAURANTS, INC.

## Certification of Chief Executive Officer

I, Gregory A. Trojan, certify that:

1. I have reviewed this quarterly report on Form 10-Q for BJ's Restaurants, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's third fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and,
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and,
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2018

By: /s/ GREGORY A. TROJAN

\_\_\_\_\_  
Gregory A. Trojan

Chief Executive Officer

(Principal Executive Officer)

---

**BJ'S RESTAURANTS, INC.**

**Certification of Chief Financial Officer**

I, Gregory S. Levin, certify that:

1. I have reviewed this quarterly report on Form 10-Q for BJ's Restaurants, Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation;
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's third fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and,
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and,
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2018

By: /s/ GREGORY S. LEVIN

Gregory S. Levin

President, Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)

**BJ'S RESTAURANTS, INC.**  
**CERTIFICATION PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned Gregory A. Trojan, Chief Executive Officer of the Company, and Gregory S. Levin, Chief Financial Officer of the Company, certify to their knowledge:

- (1) The Quarterly Report on Form 10-Q of the Company for the quarter ended October 2, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

In Witness Whereof, each of the undersigned has signed this Certification as of this November 5, 2018.

/s/ GREGORY A. TROJAN

\_\_\_\_\_  
Gregory A. Trojan  
Chief Executive Officer  
(Principal Executive Officer)

/s/ GREGORY S. LEVIN

\_\_\_\_\_  
Gregory S. Levin  
President, Chief Financial Officer and Secretary  
(Principal Financial and Accounting Officer)

