BJs RESTAURANTS INC
Form 10-K
February 28, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 3, 2012

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ________

Commission file number 0-21423

BJ S RESTAURANTS, INC.

(Exact name of registrant as specified in its charter)

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

7755 Center Avenue

Suite 300

Huntington Beach, California 92647

(714) 500-2400

(Address, including zip code, and telephone number, including

area code, of registrant s principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of each Exchange on Which Registered**
Common Stock, No Par Value	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ¨ NO x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ¨ NO x

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 x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES x NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

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

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

The aggregate market value of the common stock of the Registrant (Common Stock) held by non-affiliates as of the last business day of the second fiscal quarter, June 28, 2011, was $1,243,024,427, calculated based on the closing price of our common stock as reported by the NASDAQ Global Select Market on such date.

As of February 27, 2012, 27,912,557 shares of the common stock of the Registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the following documents are incorporated by reference into Part III of this Form 10-K: The Registrant s Proxy Statement for the Annual Meeting of Shareholders.

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BJ S RESTAURANTS, INC.

PART I

Unless the context otherwise requires, when we use the words BJ s, the Company, we, us or our in this Form 10-K, we are referring to BJ s Restaurants, Inc., a California corporation, and its subsidiaries, unless it is clear from the context or expressly stated that these references are only to BJ s Restaurants, Inc.

Cautionary Factors That May Affect Future Results (Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

This Form 10-K contains forward-looking statements and other information that are based on the current beliefs of our management as well as assumptions made by and information currently available to us. When we use the words believe, plan, will likely result, expect, intend, wil continue, is anticipated, estimate, project, may, could, would, should, and similar expressions in this Form 10-K, as they relate to us management, we are intending to identify forward-looking statements. These statements reflect our current perspectives and outlook with respect to BJ s future expansion plans, key business initiatives, expected operating conditions and other factors. Moreover, we operate in a very competitive and rapidly changing environment, and new risk factors 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 operation or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given the volatility of the operating environment and its associated risks and uncertainties, investors should not rely on forward-looking statements as any prediction or guarantee of actual results.

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

- our restaurant concept, its competitive advantages and our strategies for its continued evolution and expansion;
- the rate and scope of our planned future restaurant development;
- anticipated dates on which we will commence or complete the development and opening of new restaurants;
- expectations as to the timing and success of the planned expansion of our contract brewing strategy for our proprietary handcrafted beers and sodas;
- expectations for consumer spending on casual dining restaurant occasions in general;
- expectations as to the availability and costs of key commodities used in our restaurants and brewing operations;
- expectations as to our menu price increases and their effect, if any, on revenue and results of operations;
- expectations as to the effectiveness of our planned operational, menu, marketing and capital expenditure initiatives;
- expectations as to our capital requirements and actual or available borrowings on our line of credit;
- expectations as to our future revenues, operating costs and expenses; and
- other statements of expectations, beliefs, future plans and strategies, anticipated developments and other matters that are not historical facts.

Some, but not all, significant factors that could prevent us from achieving our stated goals are set forth in Part I, Section 1A of this Annual Report on Form 10-K and include:

- Our success depends substantially on the favorable image, credibility and value of the BJ s brand and our reputation for offering guests a higher quality, more differentiated total dining experience at a good value.
- Any deterioration in general economic conditions may affect consumer spending and may adversely affect our revenues, operating results and liquidity.

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- If we do not successfully expand our restaurant operations, our growth rate and results of operations would be adversely affected.
- Our ability to open new restaurants on schedule in accordance with our targeted capacity growth rate may be adversely affected by delays or problems associated with securing suitable restaurant locations and leases, recruiting and training qualified managers and hourly team members to correctly operate our new restaurants and by other factors, some of which are beyond our control and the timing of which is difficult to forecast accurately.
- Access to sources of capital and our ability to raise capital in the future may be limited, which could adversely affect our business and our expansion plans.
- Any deterioration in general economic conditions could also have a material adverse impact on our landlords or on businesses neighboring our locations, which could adversely affect our revenues and results of operations.
- Any failure of our existing or new restaurants to achieve expected results could have a negative impact on our consolidated revenues and financial results, including a potential impairment of the long-lived assets of certain restaurants.
- Our growth may strain our infrastructure and resources, which could slow our development of new restaurants and adversely affect our ability to manage our existing restaurants.
- Any decision to either reduce or accelerate the pace of openings may positively or adversely affect our comparative financial performance.
- Our future operating results may fluctuate significantly due to our relatively small number of existing restaurants and the expenses required to open new restaurants.
- A significant number of our restaurants are concentrated in California, Texas and other Western states, which make us particularly sensitive to economic, regulatory, weather and other risk factors and conditions that are more prevalent in those states.
- Our operations are susceptible to changes in our food, labor and related (including, but not limited to, group health insurance coverage for our team members), energy and supply costs which could adversely affect our profitability.
- Our costs to construct new restaurants are susceptible to both material and labor cost fluctuations which could adversely affect our return on investment results for new restaurants.
- Our increasing dependence on contract brewers could have an adverse effect on our operations if they cease to supply us with our proprietary handcrafted beer and sodas.
- Government laws and regulations affecting the operation of our restaurants, including (but not limited to) those that apply to the acquisition and maintenance of our brewing and retail liquor licenses, minimum wages, consumer health and safety, group health insurance coverage, nutritional disclosures, -and employment-related documentation requirements could increase our operating costs, cause unexpected disruptions of our operations and restrict our growth.
- Our internal brewing, contract brewing and beer distribution arrangements are subject to periodic reviews and audits by various federal, state and local regulatory agencies, and could be adversely affected as a result of different interpretations of the laws and regulations that govern such arrangements by such agencies.

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 filings with the U.S. Securities and Exchange Commission (SEC). Because of these factors, risks and uncertainties, we caution against placing undue reliance on forward-looking statements.

The risks described in this 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 by us or that are currently deemed by us to be immaterial. However, they may ultimately manifest themselves and thereby have a material adverse effect on our business, financial condition

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and/or operating results. Although we believe that the assumptions underlying forward-looking statements are reasonable on the dates they are made, any of the assumptions could be incorrect, and there can be no guarantee or assurance that forward-looking statements will ultimately prove to be accurate. Forward-looking statements speak only as of the date on which they are made. We do not undertake any obligation to modify or revise any forward-looking statement to take into account or otherwise reflect subsequent events or circumstances arising after the date that the forward-looking statement was made. For further information regarding the risks and uncertainties that may affect our future results, please review the information set forth below under ITEM 1A. RISK FACTORS.

ASSUMPTIONS USED IN THIS FORM 10-K

Throughout this Form 10-K, our fiscal years ended January 3, 2012, December 28, 2010, December 29, 2009, December 30, 2008, and January 1, 2008, are referred to as fiscal years 2011, 2010, 2009, 2008, and 2007, respectively. Our fiscal year consists of 52 or 53 weeks and ends on the Tuesday closest to December 31 for financial reporting purposes. Fiscal year 2011 consisted of 53 weeks with a 14-week fourth quarter; therefore, all financial references to fiscal year 2011 assume 53 weeks of operations, unless noted otherwise. We have included in this Form 10-K certain discussions of financial information for fiscal 2011 on an adjusted 52-week basis to assist readers in making comparisons to our prior fiscal years. Results presented on a 52-week basis exclude the last week of fiscal 2011. All other fiscal years presented in this Form 10-K consisted of 52 weeks; additionally, all quarters, with the exception of the fourth quarter in fiscal year 2011, consisted of 13 weeks.

ITEM 1. BUSINESS

GENERAL

As of February 27, 2012, we owned and operated 116 restaurants located in the states of California, Texas, Arizona, Colorado, Oregon, Nevada, Florida, Ohio, Oklahoma, Kentucky, Indiana, Louisiana and Washington. Our restaurants operate under the BJ s Restaurant & Brewery®, BJ s Restaurant & Brewhouse®, BJ s Pizza & Grill®, or BJ s Grill names. Our menu features our BJ s® award-winning, signature deep-dish pizza, our proprietary handcrafted beers and other beers, as well as a wide selection of appetizers, entrees, pastas, sandwiches, specialty salads and desserts, including our Pizookie® dessert. Our BJ s Restaurant & Brewery® restaurants feature on-premise brewing facilities where BJ s proprietary handcrafted beers are produced for some of our restaurants. Currently, only three of our restaurants have active brewing operations on-premise. The remainder of our proprietary beer requirements is provided by third-party craft brewers (contract brewers) using our proprietary recipes. Our seven BJ s Pizza & Grill® restaurants reflect the original format of the BJ s restaurant concept that was first introduced in 1978, one of which has an operating brewery. BJ s Pizza & Grill® restaurants are a smaller format, full-service restaurant when compared to our larger-format BJ s Restaurant and Brewhouse® locations, which currently represent our primary expansion vehicle. In October 2011, we opened our first BJ s Grill location in Anaheim Hills, California. BJ s Grill is a smaller footprint restaurant that is currently intended to serve as a live research and development restaurant, where certain food, beverage, facility, technological and operational enhancements will be tested for potential application to our larger restaurants. We have no current intention to open additional BJ s Grill locations during fiscal 2012; however, we may consider opening such locations in the future.

The first BJ s restaurant was opened in 1978 in Orange County, California and was centered on bringing the unique flavor of deep-dish pizza to southern California. We acquired the BJ s restaurant concept in 1995 from its original founders. Our initial public offering of common stock occurred in 1996. 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 over 125 menu items, including appetizers, specialty salads, soups, pastas, sandwiches, entrees and desserts. In 1996, we introduced our proprietary handcrafted beers when we opened our first BJ s Restaurant & Brewery® in Brea, California. Beginning in 2002, with the opening of our first restaurants in the state of Texas, we began using qualified third-party contract brewers to supply us with our proprietary beer due to certain liquor license restriction in that state. Our differentiated, high-quality, handcrafted beers have added a unique dimension to the BJ s concept which further distinguishes BJ s from many other restaurant concepts, and complements our signature pizza and many of our other menu items. Over the years, our proprietary beers have earned 28 medals at the Great American Beer Festival. Additionally, over the last few years we have been gradually expanding the number of our guest draft beer taps in many of our restaurants to complement BJ s high quality, proprietary beers and enhance BJ s competitive positioning as a leading retailer of craft beer in the casual dining segment of the restaurant industry.

We compete in the casual dining segment of the restaurant industry, which is a large, highly fragmented segment with estimated annual sales in the $100 billion range. Over the last several years, the casual dining segment of the restaurant industry has become a more mature segment of the restaurant industry. According to some industry analysts and observers, the annual rate of sales growth for the segment has been gradually decreasing since 2004 as a result of increased competition from more innovative quick-service and fast casual restaurant concepts and other food-away-from-home retailers; a leveling off of certain favorable demographic trends (the number of two wage-earner households, etc.); and a perceived over-supply of casual dining restaurants compared to demand. We believe that, in addition to these factors, the segment has suffered from low levels of innovation and a general reduction in the overall quality and differentiation of many of the larger, more mature mass market casual dining chains that collectively operate several thousand commoditized restaurants. We believe that the BJ s restaurant concept offers consumers a higher quality, more contemporary and approachable casual-plus dining experience with higher energy and relevance for about the same amount of money. Accordingly, our primary business objective is to continue our national expansion program and attempt to capture additional market share in the segment over time.

Our Internet address is http://www.bjsrestaurants.com. Electronic copies of our annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K are available, free of charge, by visiting the Investor Relations section of our website at http://www.bjsrestaurants.com. These reports are posted as soon as reasonably practicable after they are electronically filed with the SEC. We caution that the information on our website is not part of this or any other report we file with, or furnish to, the SEC.

THE BJ s RESTAURANT CONCEPT AND MENU

Our primary growth objective is to gradually expand the BJ s casual-plus restaurant concept nationwide during the next several years and to consistently deliver the BJ s dining experience at the BJ s Gold Standard of Operational Excellence (i.e., by providing a genuine commitment to passionately connect with every guest, on every visit, through the flawless and relentless execution of every detail during every shift). We believe that by delivering upon this commitment to our guests, we should have the best opportunity to generate significant repeat business and capture additional market share in the casual dining segment of the restaurant industry. To achieve these objectives, we plan to focus primarily, but not necessarily exclusively, on the opening of additional BJ s Restaurant & Brewhouse® format restaurants in new and existing markets in a carefully controlled manner. The term casual-plus (or premium casual or polished casual) typically refers to a competitive positioning that has greater quality and differentiation when compared to the more mature, mass market casual dining concepts with average guest checks of $12.00 to $16.00, but not necessarily as extensive as the upscale casual concepts that typically have average guest checks well in excess of $16.00.

Our signature menu offering is our deep-dish pizza, which was introduced in 1978. Approximately 16% of our total restaurant sales in fiscal 2011 consisted of deep-dish pizza. Our unique version of deep-dish pizza is unusually light, with a crispy, flavorful, bakery-type crust. Our pizza is topped with high-quality meats, fresh vegetables and a blend of five cheeses.

In addition to our deep-dish pizza, we have a broad menu with approximately 125 items featuring appetizers, specialty salads, soups, pastas, sandwiches, entrees and desserts. Examples of our other menu offerings include Santa Fe Spring Rolls, BBQ Chicken Chopped Salad, Blackened New York Steak, Grilled Pork Chops, Chicken Marsala, Cajun Pasta, Fish Tacos, Balsamic Glazed Chicken, Gluten-Free Thin Crust Pizza and our famous original BJ s Pizookie® dessert. All of our menu items are prepared to order using high-quality ingredients. This broad menu, which we continually evolve, is an important factor in our differentiation from many other casual dining competitors. Over the last several years we have continued to evolve and differentiate our menu offerings. For example, we introduced our Snacks and Small Bites menu category in fiscal 2010, which features individual appetizers priced between $2.95 and $4.95. During fiscal 2011, we introduced our new Enlightened Entrées menu category, consisting of several innovative menu offerings that contain 575 calories or less with bold taste profiles. Our menu entrees generally range in price from $7.25 to $19.95, and our daily lunch specials start at $5.95. We estimate that our average guest check in 2011, including beverages, was approximately $13.00. Our extensive menu and moderate pricing allow us to appeal to a variety of guests and dining occasions, including everyday lunch and dinner, special occasions, and late night business. We believe these competitive attributes were a significant factor in our achievement of relatively strong comparable restaurant sales increases of 6.6% and 5.6% for fiscal 2011 and 2010, respectively, despite the very difficult and volatile environment for consumer discretionary spending during both years. Furthermore, despite the recessionary economy of 2009, our comparable restaurant sales decreased only 0.8% when compared to fiscal 2008.

Our large, flexible kitchens and bars allow us to adapt to changing consumer tastes and trends regarding food and beverages. Generally, we evaluate our menu offerings and prices two to three times a year, and we may add, delete or modify certain menu offerings at those times. Substantially all prospective menu and beverage offerings are initially evaluated by our internal menu development team and then tested in selected restaurants before any company-wide rollout. During fiscal 2012, we plan to evaluate the latest developments in kitchen technology and equipment, and we may decide to commit additional capital resources to further expand our overall kitchen capabilities and capacities in the future.

All of our restaurants feature our award-winning, proprietary handcrafted beers, which we believe not only differentiate us from many other restaurant concepts, but also enhance our desire to provide greater quality and uniqueness to our guests in everything we do. Approximately 10% of our total restaurant sales in 2011 consisted of our proprietary handcrafted beers, which are freshly brewed and are not pasteurized. During 2010, we introduced BJ s LightSwitch Lager®, a flavorful craft beer with fewer calories than many popular domestic light beers that has a pleasant malt flavor balanced with a clean, dry finish. With this addition, we now offer as many as eight standard proprietary handcrafted beers along with a rotating selection of seasonal handcrafted specialty beers. We also offer as many as thirty guest domestic and imported craft beers on our draft beer taps, in addition to a selection of bottled Belgian beers in the majority of our restaurants. Our expanded beer offerings are intended to enhance BJ s competitive positioning as a leading retailer of craft beer in the casual dining segment of the restaurant industry. During 2011, approximately 35% of our proprietary beer was produced at our in-house breweries located in three of our restaurants, and then distributed to our other locations in a hub and spoke fashion. The remaining 65% of our proprietary beer was produced by other qualified contract brewers using our proprietary recipes. During 2011, our in-house breweries produced approximately 20,000 barrels of beer, and contract brewers produced approximately 37,000 barrels of beer for distribution to our restaurants. A barrel of our proprietary handcrafted beer contains approximately 31 gallons, and is approximately equivalent to two retail kegs of beer. Going forward, we intend to gradually shift the vast majority of our beer production to contract brewers. We also offer a selection of popular wines and spirits for sale in our restaurants. Alcoholic beverages, including our handcrafted beers, represented approximately 22% of our total restaurant sales in 2011.

RESTAURANT OPERATIONS

Based on internal and publicly available data, we believe that our larger-format brewery and brewhouse restaurants, on average, generate relatively high guest traffic per square foot compared to many other casual dining concepts. Therefore, we have implemented operational systems and procedures to support our desire to run our restaurants quality fast, particularly at peak dining periods, in order to effectively and efficiently process every guest transaction offered to us. In order to serve our relatively large number of guests, we carefully select, train and supervise our restaurant-level employees (team members). The typical management team for a BJ s Restaurant & Brewery® and BJ s Restaurant & Brewhouse® consists of a General Manager, an Executive Kitchen Manager and four to five other managers depending on the sales volume for each restaurant. Additionally, each restaurant typically employs an average of approximately 150 hourly team members, many of whom are paid at the statutory minimum wage level and work part-time. The General Manager is responsible for the day-to-day operations of their restaurant, including hiring, training, and the development of personnel, as well as for sales and operating profit. The Executive Kitchen Manager is responsible for food quality and preparation, purchasing, inventories and kitchen labor costs.

The General Manager of each restaurant reports to a Director of Operations or an Area Vice President, who generally supervises six to eight restaurants and who in turn reports to a Regional Vice President or a Senior Regional Vice President. Additionally, we have several Regional Kitchen Operations Managers who oversee the food quality and consistency in our restaurants and help educate, coach and develop our kitchen team members. Our Regional Kitchen Operations Managers report to a Vice President of Kitchen Operations, who maintains company-wide standards for food quality, food waste and yields, kitchen operations, sanitation, and the execution of all menu changes in our restaurants. All of our Regional Vice Presidents and our Vice President of Kitchen Operations report to our Chief Restaurant Operations Officer who oversees all aspects of restaurant operations including kitchen operations, restaurant facility management, new restaurant openings and the roll-out of key operational initiatives. All of our restaurants prepare detailed weekly and monthly operating budgets, and compare their actual results to their budgets. We also measure the productivity and efficiency of our restaurant operations using a variety of qualitative and quantitative statistical indicators such as kitchen ticket times, actual versus theoretical food waste, items produced or sold per labor hour, labor hours worked per 100 guests served, controllable operating costs per guest served and other activity measures.

Excluding our BJ s Pizza & Grill® restaurants, our typical restaurant hours of operations are generally from 11:00 am to 12:00 am Sunday through Thursday and 11:00 am to 1:00 am Friday and Saturday. Our restaurants are typically open every day of the year except for Thanksgiving and Christmas. Most of our restaurants currently offer either in-house and/or third-party delivery service. Additionally, all restaurants offer call-ahead seating and on-line ordering for guest pick-up.

Our goal is to staff our restaurants with qualified, trained and enthusiastic team members who desire to be an integral part of BJ s fun, premium casual atmosphere and, at the same time, have the passion, intensity, work ethic and ability to execute our concept correctly and consistently on every shift. Prior experience in the restaurant industry is only one of the qualities management looks for in our restaurant team members. Enthusiasm, motivation, dependability, integrity, and the ability to interact well and connect with our guests and correctly execute our concept are some of the key qualities for BJ s management and team members.

In order to maintain our high standards, all new restaurant hourly team members undergo formal training from certified Team Member Instructors at each restaurant. Our Team Member Instructors oversee the training by position for each new hourly team member and are also utilized to support our new restaurant openings. Our hourly team goes through a series of in-depth interactive and automated training for their respective positions. New restaurant managers are required to successfully complete an11-week comprehensive training program dedicated to all aspects of the operation of our restaurants including both restaurateuring and restaurant business-related topics. Our restaurant management training program is directed by our Senior Vice President for Operations Talent Development and is closely monitored by our field supervision team. We continuously review our training curriculum for our hourly team members, new managers and our existing restaurant managers. Additionally, beginning in 2010 we added several new continuing education classes including our Beermaster program for all of our general managers and BJ s Kitchen Academy to develop additional kitchen managers.

Our future growth and success is highly dependent upon our ability to attract, develop and retain qualified restaurant management and hourly team members to correctly and consistently operate our restaurants. We attempt to accomplish this by providing our team members with opportunities for increased responsibilities and advancement as well as performance-driven incentives based on both financial and guest satisfaction metrics. We also support our team members by offering what we believe to be competitive wages and, for eligible team members, competitive fringe benefits (including a 401(k) plan with a company match, medical insurance and dining discounts). Additionally, since 2007, all of our general managers, executive kitchen managers, regional kitchen operations managers, directors of operations and certain brewery operations team members are eligible to be selected to participate in our Gold Standard Stock Ownership Program that operates under the authority of our

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2005 Equity Incentive Plan (the Plan). This program is intended to be a long-term wealth building program based on awards of restricted stock units or other equity-based awards and is dependent on the participant s extended service with us in their respective positions and their achievement of certain agreed upon performance objectives during that service period (generally five years).

RESTAURANT SITE SELECTION AND EXPANSION OBJECTIVES

Our BJ s Restaurant & Brewhouse® format (which receives the beer it sells from one of our BJ s Restaurant & Brewery® locations or an approved contract brewer) is currently expected to represent the vast majority of our planned new restaurant growth for the foreseeable future. We may also open new BJ s Restaurant & Brewery® formats if operating an on-site brewery is the only legally permissible way to offer our proprietary handcrafted beer in certain highly-desirable locations. Although we currently have no plans to do so in fiscal 2012, we may also consider opening smaller-format BJ s Grill format restaurants as fill-in locations in certain densely-populated, urban trade areas, or in smaller cities where a larger-format location could not be obtained or is not appropriate.

We desire to obtain high-quality, high-profile locations for our casual-plus restaurants, which we believe have the ability to draw guests from a larger area than most mass market casual dining chain restaurants. The sizes of our restaurant trade areas vary from location to location, depending on a number of factors such as population density, retail traffic generators and geography. We believe the locations of our restaurants are critical to our long-term success. Accordingly, we devote significant time and resources to analyzing each prospective site. Since BJ s has proven that it can be successful in a variety of locations (urban or suburban shopping malls, retail strip centers, lifestyle centers, and entertainment centers either freestanding or in-line) and in a variety of income demographics, we can be highly selective and flexible in choosing suitable locations. In general, we currently prefer to open our restaurants at high-profile sites in mature trade areas with dense populations. Additionally, we target geographic regions that allow us to build multiple restaurants in those areas. This clustering approach can provide specific economic benefits including lower supply and distribution costs, improved marketing efficiencies, management supervision leverage and increased brand awareness. It is not our current intention to open new restaurants in locations that compete for significant numbers of customers with our existing restaurants. However, as with most growing retail and restaurant chain operations, there can be no assurance that sales transfers or cannibalization among our locations will not inadvertently occur or become more significant in the future as we gradually increase our presence in existing markets to maximize our competitive position and financial performance in each market.

As a result of our successful restaurant openings in numerous markets over the last several years, we believe that the viability of the BJ s restaurant concept has been successfully demonstrated in a variety of site layouts, trade areas and markets. Accordingly, we intend to continue developing BJ s restaurants in high-quality, high-profile locations within mature, densely populated trade areas in both existing and new markets.

During fiscal 2011, we opened 13 new restaurants and thereby successfully achieved our goal to increase our total restaurant operating weeks by approximately 13% during the year. During 2012, we plan to open as many as 16 new restaurants, including one relocation of an existing older, smaller-format Pizza and Grill restaurant to a new site that can support a larger-format Brewhouse restaurant. We have targeted an approximate 11% increase in total restaurant operating weeks for fiscal 2012, including the effect of the 53^{rd} week for fiscal 2011 (13% increase excluding the effect of the 53^{rd} week). Based on information currently available, during 2012 we expect to open as many as one restaurant during the first quarter; five restaurants during the second quarter; five restaurants (including one relocation) during the third quarter; and five restaurants during the fourth quarter. However, there are a number of risk factors associated with opening new restaurants and entering new markets, and it is difficult for us to precisely predict the timing of our new restaurant openings due to many factors that are outside of our control, including those identified under Risk Factors in Part I, Section 1A of this Annual Report on Form 10-K.

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We have signed leases or letters of intent for all of our potential restaurant openings for fiscal 2012. As of February 27, 2012, the following table sets forth information with respect to future restaurant locations that we expect to open in fiscal 2012 and beyond for which leases or purchase agreements have been executed:

Future Restaurants with Signed Leases

Santa Rosa, California
Tampa, Florida
Round Rock, Texas
Salinas, California
Dublin, California
New Braunfels, Texas

Future Restaurants with Underlying Land Purchased

Waco, Texas

We are currently negotiating additional leases and/or real estate purchases for potential future locations for fiscal 2012 and 2013. From time to time, we will evaluate opportunities to acquire and convert other restaurant locations or entire restaurant chains to the BJ s restaurant concept. However, we currently have no binding commitments (other than the signed leases or land purchase agreements set forth in the table above) or agreements to acquire or convert any other restaurant locations or chains to our concepts.

We typically enter into leases for our locations for primary periods of 15 to 20 years. We also negotiate for and obtain lease extension options in most instances. Our restaurants can either be freestanding or in-line, and we may utilize both ground leases and build-to-suit leases. Our rent structures vary from lease to lease, but generally provide for the payment of both minimum base rent and contingent (percentage) rent based on restaurant sales. We generally are also responsible for our proportionate share of common area maintenance (CAM), insurance, property tax and other occupancy-related expenses under our leases. We expend cash for leasehold improvements and furnishings, fixtures and equipment to build out our leased premises. We may also expend cash for permanent structural additions that we make to leased premises. We also expend cash for restaurant preopening costs. At times, we may have some of our costs to open a restaurant effectively reimbursed to us by our landlords in the form of tenant improvement allowance incentives pursuant to agreed-upon terms in our leases. If obtained, these allowances usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. However, there can be no assurance that such allowances will be available for every potential location that we seek to develop into a new restaurant. Generally, a landlord will charge us additional rent for any allowances provided to us in this regard. We may also purchase the land underlying certain restaurant locations if they become available. However, it is not our current strategy to own a large number of land parcels that underlie our restaurants. In many cases, we subsequently enter into sale-leaseback arrangements for land parcels that we may purchase.

TARGETED NEW RESTAURANT ECONOMICS

In selecting sites for our restaurants, an important objective is to earn a suitable rate of return on our investment. However, this return often cannot be meaningfully measured until our restaurants reach their mature run-rate levels of sales and profitability. Maturation periods vary from restaurant to restaurant, but generally range from two to four years. On average, we currently target a blended 25% to 30% return on our invested capital, and a blended 20% to 25% return on total invested capital, which includes our invested capital and a factor for the landlord s invested capital (based on a capitalized value of minimum rents to be paid to the landlord) for each group of new restaurants to be opened each year, measured once the restaurants reach their mature level of operations. Our targeted returns on invested capital in new restaurants may change in the future, depending upon competitive conditions in the casual dining segment, real estate market conditions, construction and operating cost trends and other factors both within and outside of our control.

The aforementioned return-on-investment targets for our restaurant operations do not consider any allocations of field supervision and corporate support expense; exclude non-cash items such as depreciation, amortization and equity-related compensation expense; exclude income taxes; and do not represent a targeted return on an investment in our common stock. Additionally, the actual performance of any new restaurant location will usually differ from its originally targeted performance due to a variety of factors, many of which are outside of our control, and such differences may be material. There can be no assurance that any new restaurant opened will have similar operating results to those of established restaurants. See Risk Factors in Part I, Item 1A of this Annual Report on Form 10-K for a discussion of certain risks relating to the development and operation of our restaurants.

We generally target our new restaurants to achieve average annual sales at maturity of $4.5 million to $5.5 million, and we generally target an average four wall estimated operating cash flow margin in the range of 18% to 20% at maturity, after all occupancy expenses. Not all new restaurants are expected to achieve our average return-on-investment targets. Some may be targeted to achieve higher returns and some may be targeted to achieve lower returns, based on factors specific to each restaurant location. These factors include, among other things, the level of overall consumer and market awareness for our brand in the location s general trade area; the specific occupancy structure and capital expenditure requirement for the location; the availability and amount of tenant improvement allowances; and, the expected operating cost structure in the trade area (minimum hourly wages, local costs for fresh commodities such as produce, etc.).

Our current BJ s Restaurant & Brewhouse® freestanding locations average approximately 8,500 productive square feet in size, and we generally target average annual sales per productive square foot to be in the range of $525 to $650. During 2011, our 102 restaurants that were open for the entire year achieved sales greater than $700 per productive square foot on average. Our investment costs for new restaurants vary significantly depending on a number of factors including, but not limited to their absolute sizes, layouts (custom or prototype), type of construction labor (union or non-union), local permitting requirements, the scope of any required site work, the cost of liquor and other licenses and hook-up fees, geographical location and facility type (brewery compared to brewhouse). In general, our gross cash investment for site improvements, buildings, other leasehold improvements and furniture, fixtures and equipment (excluding any tenant improvement allowances we may receive from landlords) currently averages approximately $525 per square foot for a typical free standing BJ s Restaurant & Brewhouse®. We typically seek tenant improvement allowances in the range of $100 to $200 per square foot. However, not every location we develop into a restaurant will have such allowances available. During 2011, we opened 13 new restaurants of which only five restaurants received tenant improvement allowances. For these five restaurants, our average tenant improvement allowance was approximately $140 per square foot. Due to the current unfavorable conditions in the general economy and the credit markets that have impacted the financial positions and flexibility of many retail project developers, we currently expect that less tenant improvement allowances will likely be available for the foreseeable future.

It is common in the casual dining industry for many new locations to initially open with sales volumes well in excess of their sustainable run-rate levels. This initial honeymoon sales period usually results from the energy and excitement generated by restaurant openings in new or remodeled lifestyle centers or retail projects that generate unusually high consumer traffic during grand openings. During the several months following the opening of new restaurants, consumer traffic and sales volumes will gradually adjust downward to their expected, more predictable and sustainable run-rate levels. In fact, it may take 12 to 24 months for a new restaurant s sales to eventually settle at a more predictable and sustainable run-rate level. Every restaurant has its own individual opening sales pattern, and this pattern is difficult to predict. For example, many BJ s restaurant openings in our home state of California often experience honeymoon sales periods where sales may initially be 20% to 40% higher than their expected run-rate level. On the other hand, many BJ s restaurant openings in other states, where the BJ s concept is not that well known, can often experience a reverse honeymoon sales period, where initial sales may be 20% to 30% less than where we expect their run-rate level to ultimately settle.

Additionally, all of our new restaurants usually require several months after opening, if not longer, to reach their targeted restaurant-level operating margin due to cost of sales and labor inefficiencies commonly associated with more complex casual dining restaurants. How quickly new restaurants achieve their targeted operating margin depends on many factors, including the level of consumer familiarity with our brand when we enter new markets, as well as the availability of experienced managers and team members, and the time required to negotiate and obtain favorable costs for certain fresh food items and other supplies from local suppliers. As a result, a significant number of restaurant openings in any single fiscal quarter, along with their associated opening expenses, could have a significant impact on our consolidated results of operations for that period. Therefore, our results of operations for any single fiscal quarter are not necessarily indicative of results expected for any other fiscal quarter nor for a full fiscal year.

RESTAURANT OPENING EXPENSES

Restaurant opening expenses (also referred to as preopening expenses) include incremental out-of-pocket costs that are directly related to the openings of new restaurants that may not be otherwise capitalized. As a result of the more complex operational nature of our casual-plus restaurant concept compared to that of a typical casual dining chain restaurant, the preopening process for our new restaurants is more extensive, time consuming and costly. The preopening expense for one of our restaurants usually includes costs to compensate an average of six to seven restaurant management team members prior to opening; costs to recruit and train an average of 150 hourly restaurant team members; wages, travel and lodging costs for our opening training team and other support team members; costs for practice service activities; and, straight-line minimum base rent during the construction and in-restaurant training period in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP). Preopening expenses will vary from location to location depending on a number of factors, including the proximity of our existing restaurants; the amount of rent expensed during the construction and in-restaurant training periods; the size and physical layout of each location; the number of management and hourly team members required to operate each restaurant; the relative difficulty of the restaurant staffing process; the cost of travel and lodging for different metropolitan areas; the timing of the restaurant opening; and, the extent of unexpected delays, if any, in obtaining necessary licenses and permits to open the restaurant. The acquisition of our necessary operating licenses and permits may also be dependent on our landlords obtaining their licenses and permits, as well as fully completing their construction activities for the retail projects in which our leased premises are located.

Our preopening expense for a prototypical BJ s Restaurant & Brewhouse® location averaged approximately $0.5 million in 2011. Preopening expenses could be higher for non-prototypical, custom footprint restaurants and for a restaurant s initial entry into a new market. We usually incur the most significant portion of direct preopening costs within the two-month period immediately preceding and the month of a restaurant s opening. Preopening costs can fluctuate significantly from period to period, based on the number and timing of restaurant openings and the specific preopening costs incurred for each restaurant. We expense preopening costs as incurred.

BREWERY OPERATIONS

Sales of our proprietary recipe, handcrafted beers represented approximately 10% of our total restaurant sales during fiscal 2011. On average, each of our larger-format restaurants utilized approximately 550 barrels of our proprietary handcrafted beer during fiscal 2011. Our internal brewery operations originated in 1996 with the opening of the first large-format BJ s Restaurant & Brewery® location in Brea, California, which included our first on-site brewery. The Brea BJ s Restaurant & Brewery serviced not only that restaurant, but also several other California restaurants, using a hub and spoke production and distribution model that is legally permitted in California with certain limitations and restrictions. Over the years we gradually increased the number of our on-site breweries. Starting in 2002, we also began utilizing qualified contract brewers to produce our beer in Texas and other jurisdictions where the hub and spoke production model was not legally permitted. In 2011, our internal breweries produced approximately 20,000 barrels of beer, and contract brewers produced approximately 37,000 barrels of beer. Our on-site breweries are typically staffed with a head brewer and an assistant brewer, which report to a brewing director. Production planning and quality control are monitored by our corporate brewery operations department which is led by a Senior Vice President of Brewing Operations. Additionally, our on-site and contract breweries periodically send out samples of each batch of BJ s beer to an independent laboratory for quality control testing purposes.

The continued growth of our restaurant locations has resulted in a commensurate increase in our requirement for our proprietary handcrafted beer. As a result of that growing requirement, and also in light of the constraints imposed by various state tied-house laws which regulate how alcoholic beverages are manufactured, distributed and marketed, we decided in 2002 to begin accessing the services of additional, larger-scale contract brewers with greater economies of scale and quality control capabilities. We also concluded that the brewpub method of brewing beer per individual restaurant, while legally permitted in most states, was an excessively costly and inefficient way to build a national restaurant operation with a significant, proprietary handcrafted beer component. We currently believe that larger-scale contract brewing under our indirect supervision represents the optimal production method for our handcrafted beers as we continue the expansion of our restaurants nationally. We also believe that the average production cost per barrel of beer can be gradually reduced over the longer term as a result of large-scale contract brewing. However, freight costs from our current contract brewing locations will likely absorb a large portion of those production cost savings until we can increase the number of restaurants we operate and obtain increased efficiencies within our beer distribution network. Provided that these larger-scale contract brewing relationships prove to be satisfactory, we intend to continue to gradually expand our contract brewing capabilities during the next few years. As a result, we will concurrently and gradually rebalance our remaining internal beer production activities to focus on our specialty, seasonal, and research and development beers. As part of this rebalancing effort, we may elect to decommission additional internal breweries, which may result in the disposal of brewery related assets. We will continue to evaluate the benefits of internal brewing versus contract brewing and consider factors such as availability of adequate production capacity, brewery quality control procedures, federal and state laws, consistency of corporate and brand strategy, and the operating and capital costs associated with contract brewing versus the costs of brewery ownership. We estimate our total proprietary beer requirement to be approximately 70,000 barrels for fiscal 2012, with approximately 70-75% of that requirement expected to be produced by contract brewers. Contract brewers will also produce substantially all of our handcrafted sodas and cider products. As of February 27, 2012, we still have three restaurants with active brewing operations (two BJ s Restaurants & Brewery® locations and one small format BJ s Pizza & Grill® location that has a small operating brewery).

Our proprietary root beer soda has been offered to guests in our restaurants for several years and is one of our most popular non-alcoholic beverages. In the past, we have produced this product in one or more of our internal breweries and arranged for its shipment to our restaurants either in finished kegs or in syrup form for further brewing at the restaurants, depending on the configuration of each restaurant s physical facility. During the past few years, we have added other flavors to our proprietary handcrafted sodas product line, including crème soda, orange and black cherry. Based on the steadily increasing popularity and sales of these products, we decided during 2010 to outsource their production to a third-party contractor that possesses greater capacity and production economies of scale than we do.

MARKETING AND ADVERTISING

Prior to fiscal 2008, we relied on our high profile locations, operational excellence, media interest and word of mouth to attract and retain restaurant guests instead of extensive use of media advertising or discounting. Accordingly, our marketing activities were primarily focused on community-based promotions and customer referrals. Our fundamental marketing philosophy was to spend our marketing dollars on the plate or use resources that would typically be allocated to external marketing programs to provide better quality food, service and facilities to our guests. We believe this is the most effective method over the long run to protect and enhance our guest visit frequency. While we intend to maintain these historical philosophies to the maximum extent possible, in fiscal 2008 we recognized, in view of the slowdown in the national economy that we have to prudently respond to pressures that cause reduced consumer spending on casual dining occasions. Accordingly, we increased the amount of external print and internet-based media beginning in 2008 to maintain BJ s top-of-mind awareness with consumers and to promote BJ s new menu offerings and guest services. Our marketing related expenditures for 2011, 2010 and 2009 were approximately 1% of our revenues.

We intend to continue investing approximately 1.2% of our revenues in marketing-related activities in 2012. However, depending on the current operating conditions for casual dining restaurants, we may decide to increase or decrease our marketing expenditures beyond our current expectations. In addition to our top-of-mind awareness advertising that utilizes print and internet-based media, we may also utilize targeted reduced-price offers for certain restaurants in certain trade areas, from time to time, to stimulate guest trial and frequency. We do not currently anticipate that such offers would be used extensively on a longer-term basis. Additionally, we are actively using social media, such as email, Facebook®, Twitter® and Google+ to engage our guests by providing an interactive forum for them to relate with us (and each other), as well as to learn what is new and exciting in our restaurants. During fiscal 2012, we also plan to test television advertising in at least one market with the goal of building additional brand awareness.

CHARITABLE ACTIVITIES

In 2006, we sponsored the formation of The BJ s Restaurants Foundation (the Foundation), a 501(c)(3) qualified non-profit charitable organization that is principally dedicated to supporting charities that benefit children s healthcare and education, with a primary focus on the Cystic Fibrosis Foundation (CFF). Four of our executive officers (Messrs. Deitchle, Levin, Hood and Ledwith) currently serve on the Foundation s six-person board of directors. We also focus on the support of other local community and charitable causes, providing food and other resources for many worthwhile charitable events. Our commitment to supporting humanitarian causes is exemplified by our Cookies for Kids program, which supports CFF by donating a portion of our Pizookie® sales to CFF. In addition, we arrange for the collection and donation of other funds to CFF through our restaurant preopening training programs. As a collective result of these programs combined with programs administered by the Foundation, we donated $0.6 million, $0.5 million and $0.5 million to CFF during fiscal 2011, 2010 and 2009, respectively.

In 2008, the Foundation rolled out a new program called Team Action to Support Communities (TASC Force) to recognize and reward the volunteer efforts of our restaurant team members across the country as they help to give back to the communities in which our restaurants do business. In just its second year, the Foundation s TASC Force program received the prestigious Restaurant Neighbor Award in the large business category for 2009 from the National Restaurant Association. The TASC Force teams have helped fulfill the wishes of special needs kids, placed flags in a national cemetery by the graves of fallen soldiers, painted over unsightly graffiti and helped clean up beaches, parks and school grounds. In addition, the TASC Force teams have hosted blood drives, worked with Special Olympics, painted houses for elderly citizens, supported Habitat for Humanity and re-built playgrounds. The TASC Force teams have also worked at food banks, participated in fundraising runs and walkathons and delivered food to families in need on Christmas morning.

INFORMATION SYSTEMS

We believe it is extremely important to provide our operators with state of the art technology so that they can better serve our guests in a more productive and efficient manner. Therefore, beginning in 2005, we began implementing a series of technologies to improve the operational efficiencies of our restaurants and augment our point-of-sale (POS) system. These technologies include an automated kitchen display system (KDS) and bar display system (BDS), a web-based labor scheduling and productivity analyzer system, a theoretical food cost system and an automated front desk table management system. Each of these systems is integrated into our POS system which is used to record sales transactions, send menu orders to our kitchen, batch and transmit credit card transactions, record team member time clock information and to produce a variety of management reports. Our KDS is an automated routing and cooking station balancing system which improves cooking station productivity, synchronizes order completion, provides valuable ticket time and cooking time data, and allows for more efficient levels of labor without sacrificing quality. Our BDS is an automated routing and beverage station balancing system which improves beverage station productivity by further leveraging our automation capability. Additionally, our web-based labor scheduling and productivity analyzer automates the labor scheduling for the managers and team members and produces a number of real-time key performance indicators and productivity reports for our management team. Our theoretical food cost system and automated food prep system allow us to better measure our product yields and waste in our kitchens and helps reduce kitchen errors and eliminate excessive waste. Our automated front desk table management system helps us to better optimize the overall seating efficiencies and table turns in our restaurants. In 2011, we implemented a new human capital management system that will improve our ability to manage the talent development of our team members. Many of our analytical systems provide information to our home office and our field supervision organization on a daily basis, which enables our senior management to monitor certain metrics of our business on a daily, weekly and monthly basis.

Going forward, we will continue to develop restaurant and support technologies that help improve financial management, cost control, the guest experience and team member effectiveness. During fiscal 2012, we plan to implement a series of new technologies at the restaurant including, but not limited to, a new guest loyalty program to elevate our guest experience; selected KDS enhancements to further improve kitchen cook station productivity; testing a call center approach for take-out orders to improve order accuracy and hospitality; and a new automated attendant phone system that improves hospitality productivity and speed of service. In addition, we plan to implement a series of new support technologies including a new team member portal to help us more effectively communicate and engage with our team members, and a new technology infrastructure co-location to further minimize the risk of service disruptions and improve operational support.

SUPPLY CHAIN MANAGEMENT

Our supply chain department, working together with our culinary research and development team, is responsible for the selection and procurement of all of our food ingredients, beverages, products and supplies for our restaurants and brewery operations. This department, in conjunction with our brewery operations department, also manages our third-party contract brewing and handcrafted soda production arrangements. Additionally, the supply chain department also manages procurement agreements in the areas of energy, transportation and general corporate services. We seek to obtain the highest quality menu ingredients, products and supplies from reliable, approved sources at competitive prices. We continually research and evaluate various food ingredients, products and supplies for consistency and quality and compare them to our detailed specifications. Ingredient specifications are mandated by the supply chain department in order to consistently maintain the highest quality ingredients and operational materials. In order to maximize operating efficiencies between purchase and usage, each restaurant s executive kitchen manager determines daily usage requirements for food ingredients, products and supplies for his or her restaurant and places all orders with vendors approved by our supply chain department. Our executive kitchen managers also inspect all deliveries daily to ensure that the items received meet our quality specifications and negotiated prices. For many of our menu ingredients, we have arranged for acceptable alternative manufacturers, vendors, growers and shippers available in order to reduce risk in our supply chain. However, we currently rely on a single supplier for key certain ingredients, such as our pizza dough.

Where economically feasible and possible, we attempt to negotiate both short-term and long-term contracts for key commodities used in the preparation of our food and beverage offerings, based on our expected requirements for each fiscal year. If our attempts are successful, most of our contracts typically range in duration from three to twelve months, and are generally set to expire at the end of calendar quarters (if quarterly in duration) or at the end of our fiscal year (if annual in duration). We attempt to contract for the majority of our more significant commodities (chicken, beef and wheat-based products) for various periods of time with the objective of stabilizing our costs and ensuring product availability. However, there is no assurance that we will be able to continue to do so in light of the continuing volatility in the supplies and costs for many food commodities in general. Although we currently do not directly engage in future contracts or other financial risk management strategies with respect to potential commodity cost fluctuations, from time to time we may opportunistically request that our suppliers consider doing so to help minimize the impact of potential cost fluctuations.

Commencing in 2009, we entered into a three-year distribution agreement with Distribution Market Advantage (DMA), a consortium of large, regional food distributors located throughout the United States. Jacmar Foodservice Distribution, an affiliate of one of our larger shareholders, is a member of DMA and is the primary distributor of food and operating supplies for our California and Nevada restaurants. See Related Party Transactions. We have a non-exclusive contract with DMA on terms and conditions that we believe are

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consistent with those made available to similarly situated restaurant companies. Our current DMA agreement expires in June 2012. We are currently negotiating with DMA and other potential providers of distribution services for a new three-year agreement. We believe that a new agreement can be obtained with terms and conditions substantially similar to, if not more advantageous than our existing distribution agreement. However, there can be no assurances that we will be successful in this respect. Additionally, in 2006 we entered into an agreement with the largest nationwide foodservice distributor of fresh produce in the United States to service most of our restaurants and, where licensed, to distribute our proprietary handcrafted beer to our restaurants. This distributor currently delivers our proprietary handcrafted beer to approximately 60% of our restaurants. If our relationship with this distributor were discontinued, we would pursue alternative distributors. However, it may take some time to enter into replacement distribution arrangements, and our costs for distribution may increase as a result.

During the past few years, the overall cost environment for food commodities in general has become extremely volatile primarily due to domestic and worldwide agricultural, supply/demand and other macroeconomic factors that are outside of our control. Additionally, the availabilities and prices of food commodities can also be influenced by increased energy prices, animal-related diseases, natural disasters, increased geo-political tensions, the relationship of the dollar to other currencies, consumer demand both domestically and worldwide, and other factors. Virtually all commodities purchased and used in the restaurant industry, including proteins, grains, oils, dairy products, and energy have varying amounts of inherent price volatility associated with them. Additionally, during periods of rising costs for diesel fuel, our major distributors have the ability under our agreements to pass along fuel surcharges to us that are trigger