PAPA JOHNS INTERNATIONAL INC
Form 10-Q/A
April 16, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)	
[X]	Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended June 24, 2012

OR

[ ]	Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-21660

PAPA JOHN'S INTERNATIONAL, INC.
(Exact name of registrant as specified in its charter)

Delaware	61-1203323
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification number)

2002 Papa Johns Boulevard
Louisville, Kentucky 40299-2367
(Address of principal executive offices)
(502) 261-7272
(Registrant's telephone number, including area code)

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 Web site, 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer [X]	Accelerated filer [ ]
Non-accelerated filer [ ]	Smaller reporting company [ ]

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

At July 26, 2012, there were outstanding 23,439,820 shares of the registrant’s common stock, par value $0.01 per share.

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PART 1. FINANCIAL INFORMATION

EXPLANATORY NOTE

As described in Papa John's International, Inc.'s (the "Company") Current Report on Form 8-K filed on February 26, 2013 and Form 10-K for the fiscal year ended December 30, 2012 filed on February 28, 2013, in connection with the evaluation of the accounting for newly formed joint ventures, the Company reviewed the accounting for its previously existing joint venture arrangements. As a result of the review, the Company determined an error occurred in the accounting for one joint venture agreement, which contained a mandatorily redeemable feature added through a contract amendment in the third quarter of 2009. This provision contained in the 2009 contract amendment was not previously considered in determining the classification and measurement of the noncontrolling interest. In addition, the Company determined that an additional redeemable noncontrolling interest was incorrectly classified in shareholders' equity and should be classified as temporary equity. As a result, the Company is filing this amendment to its Form 10-Q for the three and six months ended June 24, 2012, to amend and restate the financial statements and other financial information contained herein to correct the errors.

This Form 10-Q/A amends the Company's Quarterly Report on Form 10-Q for the three and six months ended June 24, 2012 as originally filed with the Securities and Exchange Commission (the "SEC") on July 31, 2012 (the "Original Filing"). This Form 10-Q/A amends the Original Filing solely to correct the Company's accounting for noncontrolling interests related to our joint ventures as more fully described in Note 1 to the condensed consolidated financial statements. Revisions to the Original Filing have been made to the following items solely as a result of and to reflect the restatements and no other information in the Original Filing is amended herein:

Item 1 – Financial Statements
Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 4 – Controls and Procedures
Item 6 – Exhibits

The restatements resulted in decreases in diluted earnings per share of $0.02 and $0.01 for the three and six months ended June 24, 2012, respectively, and a decrease in diluted earnings per share of $0.02 for the six months ended June 26, 2011 (no impact for the three-month period ended June 26, 2011). The corrections had no impact on total revenues, operating income or operating cash flows and had no impact on the Company's compliance with debt covenants in any period presented.

The Company has also determined that a control deficiency related to the process of accounting for certain redemption features of the noncontrolling interests of our joint venture agreements, which gave rise to these restatements, constituted a material weakness in its internal controls over financial reporting. As a result, the Company has reviewed all existing joint venture agreements to ensure the accounting for any such redemption features was in compliance with U.S. generally accepted accounting principles. In addition, we are in the process of developing enhanced control procedures designed to ensure proper accounting for any future non-routine contracts or contract amendments. The material weakness cannot be considered remediated until the applicable remedial controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively. See "Item 4 – Controls and Procedures."

For the convenience of the reader, this Form 10-Q/A sets forth the Original Filing in its entirety. Except for the amended information referred to above, no other information in the Original Filing is amended and this Form 10-Q/A continues to describe conditions as of the date of the Original Filing and the Company has not modified or updated other disclosures presented in the Original Filing. This Form 10-Q/A does not reflect events occurring after the date of the Original Filing nor does it modify or update disclosures affected by subsequent events. Accordingly, this Form

10-Q/A should be read in conjunction with the Company's Form 10-K for the fiscal year ended December 30, 2012, and subsequent filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934.

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Item 1. Financial Statements

Papa John's International, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets

(In thousands)	June 24, 2012 (As Restated) (Unaudited)	December 25, 2011 (As Restated)
Assets		
Current assets:		
Cash and cash equivalents	$ 33,625	$ 18,942
Accounts receivable, net	27,693	28,169
Notes receivable, net	4,447	4,221
Inventories	19,695	20,091
Deferred income taxes	6,240	7,636
Prepaid expenses	10,548	10,210
Other current assets	2,880	5,555
Total current assets	105,128	94,824
Property and equipment, net	186,567	181,910
Notes receivable, less current portion, net	10,572	11,502
Goodwill	78,342	75,085
Other assets	26,828	27,061
Total assets	$ 407,437	$ 390,382
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 32,379	$ 32,966
Income and other taxes payable	4,044	3,969
Accrued expenses and other current liabilities	49,666	44,198
Total current liabilities	86,089	81,133
Deferred revenue	8,592	4,780
Long-term debt	50,000	51,489
Deferred income taxes	7,044	6,692
Other long-term liabilities	39,094	36,676
Total liabilities	190,819	180,770
Redeemable noncontrolling interests	4,458	3,965
Stockholders' equity:		
Preferred stock	-	-
Common stock	371	367
Additional paid-in capital	274,863	262,456
Accumulated other comprehensive income	1,609	1,849
Retained earnings	326,071	294,801
Treasury stock	(390,754)	(353,826)
Total stockholders' equity	212,160	205,647
Total liabilities, redeemable noncontrolling interests and stockholders' equity	$ 407,437	$ 390,382

See accompanying notes.

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Papa John's International, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

(In thousands, except per share amounts)	Three Months Ended June 24, 2012 (As Restated)	Three Months Ended June 26, 2011 (As Restated)	Six Months Ended June 24, 2012 (As Restated)	Six Months Ended June 26, 2011 (As Restated)
North America revenues:				
Domestic Company-owned restaurant sales	$143,527	$127,641	$287,342	$266,312
Franchise royalties	19,101	18,103	39,619	37,834
Franchise and development fees	206	124	428	309
Domestic commissary sales	126,593	121,027	264,203	248,699
Other sales	11,771	12,370	24,029	25,817
International revenues:				
Royalties and franchise and development fees	4,701	4,049	9,187	7,811
Restaurant and commissary sales	12,680	10,220	25,047	19,219
Total revenues	318,579	293,534	649,855	606,001
Costs and expenses:				
Domestic Company-owned restaurant expenses:				
Cost of sales	32,881	30,162	65,337	62,262
Salaries and benefits	39,839	34,367	78,652	72,016
Advertising and related costs	13,278	11,898	25,977	24,687
Occupancy costs	8,619	7,939	16,517	15,808
Other operating expenses	20,830	18,492	41,248	38,407
Total domestic Company-owned restaurant expenses	115,447	102,858	227,731	213,180
Domestic commissary and other expenses:				
Cost of sales	104,412	103,529	217,250	209,972
Salaries and benefits	9,218	8,651	18,221	17,662
Other operating expenses	13,498	13,084	27,804	26,669
Total domestic commissary and other expenses	127,128	125,264	263,275	254,303
International operating expenses	10,975	8,756	21,367	16,484
General and administrative expenses	31,463	27,617	63,059	56,691
Other general expenses	1,135	1,459	6,809	2,240
Depreciation and amortization	8,104	8,425	16,031	16,737
Total costs and expenses	294,252	274,379	598,272	559,635
Operating income	24,327	19,155	51,583	46,366
Investment income	195	205	365	382
Interest expense	(1,056)	(383)	(962)	(1,718)
Income before income taxes	23,466	18,977	50,986	45,030
Income tax expense	8,005	5,980	17,218	14,935
Net income, including redeemable noncontrolling interests	15,461	12,997	33,768	30,095
Income attributable to redeemable noncontrolling interests	(1,172)	(929)	(2,498)	(2,051)
Net income, net of redeemable noncontrolling interests	$14,289	$12,068	$31,270	$28,044
Basic earnings per common share	$0.60	$0.47	$1.31	$1.10
Earnings per common share - assuming dilution	$0.59	$0.47	$1.29	$1.09

Basic weighted average shares outstanding	23,733	25,464	23,893	25,474
Diluted weighted average shares outstanding	24,112	25,685	24,270	25,713
Comprehensive income, including redeemable noncontrolling interests	$15,010	$12,483	$33,528	$30,854
Comprehensive income, redeemable noncontrolling interests	(1,172)	(929)	(2,498)	(2,051)
Comprehensive income, net of redeemable noncontrolling interests	$13,838	$11,554	$31,030	$28,803

See accompanying notes.

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Papa John's International, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
(Unaudited)

(In thousands)	Common Stock Shares Outstanding	Common Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings (As Restated)	Treasury Stock	Total Stockholders' Equity (As Restated)
Balance at December 26, 2010	25,439	$ 361	$ 245,380	$ 849	$ 240,066	$ (291,048)	$ 195,608
Comprehensive income:							
Net income, net of redeemable noncontrolling interests (1)	-	-	-	-	28,044	-	28,044
Other comprehensive income	-	-	-	759	-	-	759
Comprehensive income							28,803
Exercise of stock options	444	4	10,659	-	-	-	10,663
Tax effect of equity awards	-	-	(1,295)	-	-	-	(1,295)
Acquisition of Company common stock	(817)	-	-	-	-	(26,162)	(26,162)
Stock-based compensation expense	-	-	3,903	-	-	-	3,903
Issuance of restricted stock	76	-	(1,884)	-	-	1,884	-
Other	-	-	(58)	-	-	218	160
Balance at June 26, 2011	25,142	$ 365	$ 256,705	$ 1,608	$ 268,110	$ (315,108)	$ 211,680
Balance at December 25, 2011	24,019	$ 367	$ 262,456	$ 1,849	$ 294,801	$ (353,826)	$ 205,647
Comprehensive income:							
Net income, net of redeemable noncontrolling interests (1)	-	-	-	-	31,270	-	31,270
	-	-	-	(240)	-	-	(240)

Other comprehensive loss							
Comprehensive income							31,030
Exercise of stock options	361	4	10,396	-	-	-	10,400
Tax effect of equity awards	-	-	468	-	-	-	468
Acquisition of Company							
Basic	$0.86	$0.49	$0.39	$0.45	$0.42		
Diluted	$0.82	$0.48	$0.39	$0.44	$0.41		
Weighted average shares outstanding:							
Basic	27,073	26,750	26,484	26,187	23,287		
Diluted	28,167	27,147	26,749	26,880	24,131		
Consolidated Balance Sheets Data (end of period):							
Cash and cash equivalents	$31,518	$44,906	$8,852	$11,617	$51,758		
Investments (1)	$22,679	$	$30,617	$41,100	$32,895		
Total assets	$430,085	$381,122	$335,209	$285,299	$249,849		
Total long-term debt (including current portion)	$	$5,000	$9,500	$	$		
Shareholders equity	$287,826	$252,979	$232,277	$220,523	$202,862		

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(1) Prior to fiscal 2008, auction rate securities investments held by us were classified as held-to-maturity, included in current assets and reported at amortized cost. Due to significant disruptions in the market for auction rate securities beginning in 2008, these investments were reclassified as available-for-sale, included in non-current assets and recorded at their estimated fair value as of the end of fiscal 2008. In December 2009, we reached a settlement for the full liquidation of our auction rate securities investment portfolio. The proceeds from the settlement were invested in investment-grade money market funds which were included with cash and cash equivalents as of the end of fiscal 2009. As of fiscal year end 2010, investments are classified as held-to-maturity, reported at amortized cost and included in current assets and noncurrent assets, depending on their stated maturity at time of purchase.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

GENERAL

As of March 4, 2011, we owned and operated 103 restaurants located in California, Texas, Arizona, Colorado, Oregon, Nevada, Florida, Ohio, Oklahoma, Kentucky, Indiana, Louisiana and Washington. Each of our restaurants is operated either as a BJ s Restaurant & Brewery, a BJ s Restaurant & Brewhouse, or a BJ s Pizza & Grill restaurant. Our menu features our award-winning, signature deep-dish pizza, our own handcrafted beers as well as a wide selection of appetizers, entrees, pastas, sandwiches, specialty salads and desserts.

The first BJ s restaurant was opened in Orange County, California in 1978 as a small full-service restaurant focusing on a lighter, bakery crust style deep-dish pizza. We acquired the original BJ s restaurants in 1995 from their original owners. Our initial public offering of common stock occurred in 1996. In 1996, we opened our first large-format restaurant and brewery in Brea, California and began to expand the menu to include our own handcrafted beer, appetizers, entrees, pastas, sandwiches, specialty salads and desserts.

Of the 103 restaurants we operated as of March 4, 2011, 11 are BJ s Restaurant & Brewery restaurants (of which three are currently manufacturing our proprietary beer for some of our restaurants), 86 are BJ s Restaurant & Brewhouse restaurants (which are similar to our brewery restaurants except that they do not manufacture beer), and six are BJ s Pizza & Grill restaurants (which are primarily our original, smaller format legacy restaurants). In the near term, our future restaurant growth will focus principally on our BJ s Restaurant & Brewhouse format. However, we may continue to build additional BJ s Restaurant & Brewery locations in certain areas where we believe it may be more appropriate to brew our own beer. We may also consider opening smaller-format BJ s Pizza and Grill formats (either under that name or a similar name) 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 also have contract brewing arrangements in which we utilize other qualified craft brewers to produce our proprietary handcrafted beers and sodas under our proprietary recipes and our indirect supervision. We currently believe that, over the long run, it will become more beneficial to increase our contract brewing due to the economies of scale that can be obtained from brewing beer in large quantities while also avoiding potential liquor licensing complications in some states where we desire to operate restaurants. As such, we expect to gradually increase our contract brewing relationships over the next several years. As a result of this expected increase in contract brewing, we intend to rebalance our internal beer production activities on an ongoing basis. In addition, we may decide to decommission some additional internally-operated breweries, which may result in additional disposals of related assets in the future.

We intend to continue developing and opening new BJ s restaurants in high profile locations within densely populated areas in both existing and new markets. Since most of our established restaurants currently operate close to full capacity during the peak demand periods of lunch and dinner, and given our relatively high average sales per productive square foot, we generally do not expect to achieve increases in comparable sales in excess of our annual effective menu price increases for our mature restaurants, assuming we are able to retain our guest traffic levels in those restaurants. Therefore, we currently expect that the majority of our year-over-year revenue growth for fiscal 2011 will be derived from new restaurant openings and the carryover impact of partial-year openings during 2010.

Newly opened restaurants typically experience normal inefficiencies in the form of higher cost of sales, labor and direct operating and occupancy costs for several months after their opening in both percentage and dollar terms when compared with our more mature, established restaurants. Accordingly, the number and timing of newly opened

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restaurants has had, and is expected to continue to have, an impact on restaurant opening expenses, cost of sales, labor and occupancy and operating expenses. Additionally, initial restaurant openings in new markets may experience even greater inefficiencies for a period of time due to lower initial sales volumes, which results from initially low consumer awareness levels, and a lack of supply chain and other operating cost leverage until additional restaurants can be opened in the markets.

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

Cost of sales is comprised of food and beverage supplies. The components of cost of sales are variable and typically fluctuate directly with sales volumes. Labor and benefit costs include direct hourly and management wages, bonuses and payroll taxes and fringe benefits for restaurant employees including stock-based compensation that is directly related to restaurant level team members.

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

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

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

While we currently expect to pursue the renewal of substantially all of our expiring restaurant leases, no guarantee can be given that such leases will be renewed or, if renewed, that rents will not increase substantially. We currently have two leases for restaurant locations that will expire during the next 12 months, and we are currently evaluating the desirability of renewing these leases.

In calculating comparable company-owned restaurant sales, we include a restaurant in the comparable base once it has been open for 18 months. Guest traffic for our restaurants is estimated based on values assigned to certain menu items or individual guest tickets.

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RESULTS OF OPERATIONS

The following table sets forth, for the years indicated, our Consolidated Statements of Income expressed as percentages of total revenues.

	Fiscal Year				
	2010	2009	2008	2007	2006
Consolidated Statements of Income Data:					
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%
Costs and expenses:					
Cost of sales	24.5	25.0	25.2	25.4	25.7
Labor and benefits	34.7	34.9	35.1	35.1	34.9
Occupancy and operating	21.3	21.6	21.4	19.6	19.3
General and administrative	6.7	6.9	7.3	8.2	8.3
Depreciation and amortization	5.6	5.7	5.1	4.6	4.2
Restaurant opening	1.0	1.2	2.0	2.2	2.2
Loss on disposal of assets	0.2	0.1	0.2	0.6	
Natural disaster and related			0.1		
Legal settlements and terminations			0.6		
Total costs and expenses	94.0	95.4	97.0	95.7	94.6
Income from operations	6.0	4.6	3.0	4.3	5.4
Other income (expense):					
Interest income		0.1	0.5	1.0	0.7
Interest expense					
Loss on investment settlement		(0.4)			
Other income (expense), net	0.1	0.1	0.1	0.2	
Total other income (expense)	0.1	(0.2)	0.6	1.2	0.7
Income before taxes	6.1	4.4	3.6	5.5	6.1
Income tax expense	1.5	1.3	0.7	1.7	2.0
Net income	4.6%	3.1%	2.9%	3.8%	4.1%

52 WEEKS ENDED DECEMBER 28, 2010 (FISCAL 2010) COMPARED TO THE 52 WEEKS ENDED DECEMBER 29, 2009 (FISCAL 2009)

Revenues. Total revenues increased by $87.2 million, or 20.4%, to $513.9 million during fiscal 2010 from $426.7 million during fiscal 2009. The increase in revenues consisted of an increase of approximately $65.1 million in restaurant sales from new restaurants not yet in our comparable sales base, combined with an approximate $22.1 million, or 5.6%, increase in comparable restaurant sales. The increase in comparable restaurant sales resulted from estimated increases in both guest traffic and the average amount spent per guest, which also includes an estimated effective menu price increase factor of approximately 2.4%.

Our restaurants, like most in casual dining, are impacted by inflationary pressures for the costs of certain commodities, labor and other operating expenses. We attempt to offset the impact of inflation on our cost structure with purchasing economies of scale, productivity and efficiency improvements, menu merchandising and menu price increases. If our guests do not accept our menu price increases, either by reducing their visits to our restaurants or by changing their purchasing patterns at our restaurants, the expected benefit of any menu price increase could be negated and our operating margins could be impacted. We currently expect our effective menu price increase for fiscal 2011 on an annualized basis to be in the 3% range. However, depending on inflationary pressures and general economic conditions for consumer discretionary spending, our full year menu pricing for fiscal 2011 may be greater or less than our current expectations. Additionally, to help protect guest traffic and to respond to the actions of our competitors, we may consider the promotion of selective menu offerings or introduce new menu offerings at reduced or lower price points which could have the effect of further reducing any benefit from menu price increases. As a relatively small casual

dining restaurant chain, we do not have the financial resources to match the marketing and advertising spending levels of our larger casual dining competitors. Accordingly, increased marketing and advertising spending by our larger competitors may also adversely impact general levels of guest traffic in our restaurants. Furthermore, we believe that our guest traffic levels, among other items, will also be dependent upon consumer confidence, discretionary consumer spending and overall employment.

All potential menu price increases must be carefully considered in light of their ultimate acceptability by our restaurant guests. Additionally, other factors outside of our control, such as inclement weather, shifts in the holiday calendar, competitive restaurant intrusions into our trade areas, general economic and competitive conditions and other factors, as described in the Risk Factors section in Part I, Item 1A of this Annual Report on Form 10-K, can impact comparable sales. As of March 4, 2011, the cost of gasoline to consumers was once again experiencing a significant increase as a result of current geopolitical tensions in the Middle East and North Africa. This could result in reduced consumer discretionary income and restaurant visits in general, as well as increased resistance to accept menu price increases. Accordingly, there can be no assurance that increases in comparable sales will be achieved as a result of increased menu prices or other factors.

Cost of Sales. Cost of sales increased by $19.6 million, or 18.4%, to $126.1 million during fiscal 2010 compared to $106.5 million during fiscal 2009. As a percentage of revenues, cost of sales decreased to 24.5% during fiscal 2010 from 25.0% for the prior fiscal year. This decrease was primarily due to increased revenues from our estimated effective menu price increases, coupled with lower commodity costs principally for poultry and cheese.

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

We provide our customers a large variety of menu items and therefore we are not overly dependent on a single group of commodities. However, based on current trends we believe the overall cost environment for food commodities in general will remain volatile during fiscal 2011, primarily due to domestic and worldwide agricultural, supply/demand and other macroeconomic factors that are outside of our control. Based on negotiations completed as of March 4, 2011, with certain of our suppliers, coupled with our current expectations as of March 4, 2011, we expect the aggregate cost of our commodity basket to increase in the range of 3% to 4% during fiscal 2011. This estimate is based on negotiations with suppliers that we have completed as of March 4, 2011, coupled with current and expected market conditions for certain fresh and other commodity items that we are either unable to, or have currently elected not to contract for longer periods of time as of that same date. Given the current volatility in the world commodity markets, our estimated increase in the aggregate cost of our commodity basket for fiscal 2011 may prove to be inaccurate and is therefore subject to future revision. As of March 4, 2011, we have approximately 80 percent of our expected commodity requirements for fiscal 2011 under agreements of six months or longer, with the exception of pizza cheese, dairy, and certain produce and grocery items. Additionally, while we do have semi-annual contracts on about 75% of our produce, with the remaining 25% on the cash market, these contracts principally consist of collar agreements in which the costs are subject to floors and ceilings. As a result, we can be exposed to fluctuations in the cost of produce. During the first quarter of fiscal 2011, unseasonably cold and freezing weather has damaged various produce crops in Florida, California, Arizona and Mexico, and we expect generally higher costs for produce for both the first and second quarters of fiscal 2011 until the upcoming spring growing season. While we continue to work with our suppliers to control food costs and we have taken steps to enter into agreements for some of the commodities used in our restaurant operations, there can be no assurance that future supplies and costs for such commodities will not fluctuate due to weather and other market conditions outside of our control.

The cost to produce and distribute our proprietary beer is included in our cost of sales. Our estimated total proprietary beer requirement for fiscal 2010 (one barrel of beer equals approximately two kegs of beer) was approximately 55,000 barrels, of which 21,000 was produced by our internal breweries and approximately 34,000 barrels were produced by

our qualified contract brewers. We currently have qualified as many as four contract brewers to produce our high-quality handcrafted beer, and we utilized two of these contract brewers during fiscal 2010. For fiscal 2011, we currently anticipate that our qualified contract brewers will produce approximately 70% of our estimated requirement of approximately 60,000 barrels for the year. Our longer-term objective is to have large contract brewers produce substantially all of our larger-volume beers. We currently expect to continue to create and brew our smaller-volume seasonal and specialty beers; however, we may eventually decide to also move the majority of this production to contract brewers as we continue to grow our restaurant base and therefore increase our demand for our proprietary beer. We believe the larger-scale contract brewers have greater economies of scale, stronger quality control systems and more effective, leverageable supply chain relationships than we have as a relatively small restaurant company. Additionally, this allows our brewery department to focus on creating and developing distinctive and unique beer flavors for us as opposed to focusing on the production and logistics of large scale brewing. As a result, over the next several years, we expect that the production cost of our larger-volume proprietary beers can be gradually reduced, while simultaneously providing an improvement in the overall consistency of our beer. However, freight costs from our contract brewing locations will likely absorb a large portion of those production cost savings for a period of time until we can further increase the number of restaurants we operate and negotiate more favorable terms with our transportation vendors.

Labor and Benefits. Labor and benefit costs for our restaurants increased by $29.1 million, or 19.5%, to $178.2 million during fiscal 2010 compared to $149.1 million during fiscal 2009. This increase was primarily due to the opening of ten new restaurants during fiscal 2010. As a percentage of revenues, labor and benefit costs decreased to 34.7% during fiscal 2010 from 34.9% in the prior fiscal year. This decrease was primarily related to our ability to leverage our fixed and semi-fixed labor costs over a higher revenue base as a result of comparable sales increases, partially offset by higher manager bonuses (due to the improved productivity and efficiency of our restaurant operations during the year) and comparatively higher equity compensation, since the prior fiscal year included a cumulative favorable forfeiture rate adjustment related to our stock-based compensation. Included in labor and benefits for fiscal 2010 and 2009 was approximately $1.1 million and $602,000, or 0.2% and 0.1% of revenues, respectively, of stock-based compensation expense related to restricted stock units granted in accordance with our Gold Standard Stock Ownership Program.

Our restaurants can be affected by increases in federal and state minimum wages or federal or state mandated health insurance or other employee benefits, such as the health care reform law enacted by Congress in March 2010. Additionally, some states have annual minimum wage increases correlated with either state or federal increases in the consumer price index. In the past, we have been able to react to changes in our key operating costs, including minimum wage increases by gradually increasing our menu prices and improving our productivity in our restaurants. However, we cannot guarantee that all or any future cost increases can be offset by increased menu prices or that increased menu prices will be accepted by our restaurant guests without any resulting changes in their visit frequencies or purchasing patterns.

For new restaurants, labor expenses will typically be higher than normal during the first several months of operations until our restaurant management team at each new restaurant becomes more accustomed to optimally predicting, managing and servicing the sales volumes expected at our new restaurants. Accordingly, a comparatively large number of new restaurant openings in any single quarter may significantly impact labor cost comparisons for the entire Company.

Occupancy and Operating. Occupancy and operating expenses increased by $17.4 million, or 18.8%, to $109.6 million during fiscal 2010 compared to $92.2 million during fiscal 2009. The increase reflected additional operating and occupancy expenses related to the 10 new restaurants that were opened during fiscal 2010. As a percentage of revenues, occupancy and operating expenses decreased to 21.3% for fiscal 2010 from 21.6% for the prior fiscal year. This percentage decrease was due to our ability to leverage the fixed and semi-fixed components of these expenses as a result of our comparable sales increases, coupled with lower marketing expenditures and partially offset by higher general liability insurance costs.

General and Administrative. General and administrative expenses increased by $5.1 million, or 17.5%, to $34.6 million during fiscal 2010 compared to $29.5 million during fiscal 2009. Also included in general and administrative costs for fiscal 2010 and 2009 was $2.9 million and $2.3 million, respectively, of stock-based compensation expense. The

overall increase in general and administrative expenses was primarily due to planned higher field supervision and support costs, coupled with higher legal and consulting expenses and incentive compensation as a result of better-than-planned financial performance for fiscal 2010. As a percentage of revenues, general and administrative expenses decreased to 6.7% for fiscal 2010 from 6.9% for the prior fiscal year. This percentage decrease was due to our ability to leverage the fixed component of these expenses over a higher revenue base as a result of comparable sales increases.

Depreciation and Amortization. Depreciation and amortization increased by $4.8 million, or 19.7%, to $28.9 million during fiscal 2010 compared to $24.1 million during fiscal 2009. As a percentage of revenues, depreciation and amortization decreased to 5.6% for fiscal 2010 from 5.7% for the prior fiscal year. This percentage decrease was primarily due to our ability to leverage the fixed nature of these costs as a result of comparable sales increases.

Restaurant Opening. Restaurant opening expenses decreased by $0.1 million, or 2.6%, to $5.2 million during fiscal 2010 compared to $5.3 million during fiscal 2009. We opened ten new restaurants during both fiscal 2010 and 2009. Our opening costs will fluctuate from period to period, depending upon, but not limited to, the number of restaurant openings, the size and concept of the restaurants being opened, the location of the restaurants and the complexity of the staff hiring and training process. See Business Restaurant Opening Expenses in Part I, Item 1 of this Annual Report on Form 10-K.

Loss on Disposal of Assets. Loss on disposal of assets increased by $0.9 million, to $1.2 million during fiscal 2010 compared to $0.3 million during fiscal 2009. These costs were related to the disposal of certain unproductive restaurant assets in connection with our ongoing productivity/efficiency initiatives and facility image enhancement activities. We did not have significant fixed asset disposals during fiscal 2009.

Interest Income. Interest income decreased by $0.2 million, or 57.9%, to $0.1 million during fiscal 2010 compared to $0.3 million during fiscal 2009. This decrease was primarily due to comparatively lower interest rates and investment balances during fiscal 2010.

Interest Expense. Interest expense increased by $12,000, or 15.4%, to $90,000 during fiscal 2010 compared to $78,000 during fiscal 2009. This increase is primarily due to additional fees paid for our standby letters of credit that support certain of our insurance arrangements during fiscal 2010.

Loss on Investment Settlement. Loss on investment settlement relates to the settlement agreement reached in December 2009 with our former broker-dealer for the full liquidation of our auction rate securities (ARS) investment portfolio. Under the terms of the settlement, we received approximately $27.4 million in cash (including accrued interest) plus the potential for additional recoveries based on the performance of the auction rate securities market over the next three years in exchange for the entire remaining ARS investment portfolio. In connection with this settlement, we recorded a pre-tax loss on investment settlement of approximately $1.7 million in fiscal 2009.

Other Income, Net. Net other income increased by $0.2 million, or 61.7%, to $0.6 million during fiscal 2010 compared to $0.4 million during fiscal 2009. This increase was primarily due to greater gift card breakage income, coupled with proceeds from the sale of excess brewery equipment that had been written off in prior periods. Based on an analysis of our gift card program since its inception, we determined that the likelihood of gift card redemption is remote after 24 months from date of issuance.

Income Tax Expense. Our effective income tax rate for fiscal 2010 was 24.8% compared to 29.9% for fiscal 2009. The effective income tax rate for fiscal 2010 differed from the statutory income tax rate primarily due to additional income tax deductions related to disqualified dispositions from the exercise of incentive stock options, coupled with additional tax credits. We currently estimate our effective tax rate to be approximately 29.0% to 30.0% for fiscal 2011. However, the actual effective tax rate for fiscal 2011 may be different than our current estimate due to actual revenues, pre-tax income and tax credits achieved during the year and the deductibility of any subsequent disqualified dispositions related to incentive stock options.

52 WEEKS ENDED DECEMBER 29, 2009 (FISCAL 2009) COMPARED TO THE 52 WEEKS ENDED DECEMBER 30, 2008 (FISCAL 2008)

Revenues. Total revenues increased by $52.6 million, or 14.1%, to $426.7 million during fiscal 2009 compared to $374.1 million during fiscal 2008. The increase in revenues consisted of an increase of approximately $55.3 million in restaurant sales from new restaurants not yet in our comparable sales base, partially offset by an approximate $2.7 million, or 0.8%, decrease in comparable restaurant sales. The decrease in comparable restaurant sales resulted from decreased guest traffic, partially offset by an estimated menu price increase of approximately 2.8%. The difficult economic environment, high unemployment and uncertainty in overall consumer confidence negatively impacted consumer spending for casual dining restaurant occasions during fiscal 2009.

Cost of Sales. Cost of sales increased by $12.1 million, or 12.8%, to $106.5 million during fiscal 2009 compared to $94.4 million during fiscal 2008. As a percentage of revenues, cost of sales decreased to 25.0% during fiscal 2009 from 25.2% for the prior fiscal year. This decrease was primarily due to increased revenues from our estimated effective menu price increases, coupled with lower pizza cheese costs.

The cost to produce and distribute our proprietary beer is included in our cost of sales. In fiscal 2009, we utilized four qualified contract brewers to produce an aggregate of approximately 22,000 barrels of our handcrafted beer, representing about 48% of our total requirement for proprietary beer for the year.

Labor and Benefits. Labor and benefit costs for our restaurants increased by $17.8 million, or 13.5%, to $149.1 million during fiscal 2009 compared to $131.3 million during fiscal 2008. This increase was primarily due to the opening of 10 new restaurants during fiscal 2009. As a percentage of revenues, labor and benefit costs decreased to 34.9% for fiscal 2009 from 35.1% as compared to fiscal 2008. This percentage decrease was primarily due to lower management labor costs as a result of less new restaurant openings, coupled with a cumulative favorable forfeiture rate adjustment related to our stock-based compensation grants based on our actual forfeiture experience to date. Included in labor and benefits for fiscal 2009 and 2008 was approximately $602,000 and $806,000, or 0.1% and 0.2% of revenues, respectively, of stock-based compensation expense related to restricted stock units granted in accordance with our Gold Standard Stock Ownership Program.

Our restaurants can be affected by increases in federal and state minimum wages. Additionally, some states have annual minimum wage increases correlated with either state or federal increases in the consumer price index. In July 2009, the federal minimum wage increased by $0.70 to $7.25 per hour. In the past, we have been able to react to changes in our key operating costs, including minimum wage increases by gradually increasing our menu prices and improving our productivity in our restaurants. However, we cannot guarantee that all or any future cost increases can be offset by increased menu prices or that increased menu prices will be accepted by our restaurant guests without any resulting changes in their visit frequencies or purchasing patterns.

Occupancy and Operating. Occupancy and operating expenses increased by $12.0 million, or 14.9%, to $92.2 million during fiscal 2009 compared to $80.2 million during fiscal 2008. The increase reflected additional operating and occupancy expenses related to the 10 new restaurants we opened during fiscal 2009. As a percentage of revenues, occupancy and operating expenses increased to 21.6% for fiscal 2009 from 21.4% for the prior fiscal year. This percentage increase was principally a result of increased marketing expenses for electronic, print and web-based media in response to the overall competitive environment, coupled with the de-leveraging of the fixed component of rent-related expenses as a result of the 0.8% decrease in comparable restaurant sales during fiscal 2009.

General and Administrative. General and administrative expenses increased by $2.2 million, or 8.1%, to $29.5 million during fiscal 2009 compared to $27.3 million during fiscal 2008. Included in general and administrative expenses for fiscal 2009 and 2008 was $2.3 million and $2.5 million, respectively, of stock-based compensation expense. The overall increase in general and administrative expenses was primarily due to higher accrued incentive compensation expense compared to the same period last year; planned increases in field supervision expenses; and, increased legal fees primarily related to our auction rate securities settlement, partially offset by less salary and related expenses from the departure of our two co-founders at the end of fiscal 2008. As a percentage of revenues, general and administrative expenses decreased to 6.9% for fiscal 2009 from 7.3% for the prior fiscal year. This decrease is primarily due to leverage of the fixed component of these expenses over a higher revenue base.

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Depreciation and Amortization. Depreciation and amortization increased by $4.9 million, or 25.7%, to $24.1 million during fiscal 2009 compared to $19.2 million during the fiscal 2008. As a percentage of revenues, depreciation and amortization increased to 5.7% for fiscal 2009 from 5.1% for the prior fiscal year. This increase was primarily a result of increased construction costs to build new restaurants as compared to our established base of restaurants, coupled with the de-leveraging of the fixed component of these expenses as a result of the 0.8% decrease in comparable restaurant sales during fiscal 2009.

Restaurant Opening. Restaurant opening expenses decreased by $2.1 million, or 27.9%, to $5.3 million during fiscal 2009 compared to $7.4 million during the fiscal 2008. This decrease was primarily due to opening costs related to 10 new restaurant openings during fiscal 2009, compared to 15 new restaurant openings during fiscal 2008. Our opening costs will fluctuate from period to period, depending upon, but not limited to, the number of restaurant openings, the size and concept of the restaurants being opened, the location of the restaurants and the complexity of the staff hiring and training process.

Loss on Disposal of Assets. Loss on disposal of assets decreased by $543,000 or 63.5%, to $312,000 during fiscal 2009 compared to $855,000 during fiscal 2008. These costs were related to normal disposals associated with the ordinary course of business, along with asset disposals related to selected restaurant remodeling activities.

Natural Disaster and Related. There were no natural disaster related costs recorded in fiscal 2009. The natural disaster and related costs of $446,000 for fiscal 2008 related to property and facility damages from hurricanes Gustav and Ike that were in excess of our related insurance coverage.

Legal Settlements and Terminations. There were no legal settlement and terminations recorded in fiscal 2009. Legal settlements and terminations of $2.1 million in fiscal 2008 principally related to accrued compensation and related benefits resulting from the December 2008 departure of our two co-founders, and estimated costs to settle two California employment practice lawsuits that had been outstanding since 2004 and 2005.

Interest Income. Interest income decreased by $1.5 million, or 84.0%, to $0.3 million during fiscal 2009 compared to $1.8 million during fiscal 2008. This decrease was primarily due to comparatively lower interest rates and investment balances during fiscal 2009.

Interest Expense. Interest expense increased by $18,000, or 30.0%, to $78,000 during fiscal 2009 compared to $60,000 during fiscal 2008. This slight increase was primarily due to increased fees for our standby letters of credit during fiscal 2009.

Other Income, Net. Net other income slightly increased by $3,000, or 0.8%, to $379,000 during fiscal 2009 compared to $376,000 during fiscal 2008.

Loss on Investment Settlement. Loss on investment settlement relates to the confidential settlement agreement reached in December 2009 with our former broker-dealer for the full liquidation of our auction rate securities (ARS) investment portfolio. Under the terms of the settlement, we received approximately $27.4 million in cash (including accrued interest) plus the potential for additional recoveries based on the performance of the auction rate securities market over the next three years in exchange for the entire remaining ARS investment portfolio. In connection with this settlement, we recorded a pre-tax loss on investment settlement of approximately $1.7 million in fiscal 2009.

Income Tax Expense. Our effective income tax rate for fiscal 2009 was 29.9% compared to 21.0% for fiscal 2008. The effective income tax rate for fiscal 2009 differs from the statutory income tax rate primarily due to FICA tip credits, the non-deductibility of incentive stock options and tax-free interest on our investments.

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LIQUIDITY AND CAPITAL RESOURCES

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

	December 28, 2010	December 29, 2009
Cash and cash equivalents	$ 31,518	$ 44,906
Net working capital	$ 18,636	$ 18,641
Current ratio	1.3:1.0	1.3:1.0

	52 Weeks Ended	
	December 28, 2010	December 29, 2009
Cash provided by operating activities	$ 74,669	$ 68,326
Capital expenditures	$ 68,031	$ 60,015

Our fundamental corporate finance philosophy is to maintain a conservative balance sheet in order to support our long-term restaurant expansion plan with sufficient financial flexibility; to provide the financial resources necessary to protect and enhance the competitiveness of our restaurant and brewing operations; and to provide a prudent level of financial capacity to manage the risks and uncertainties of conducting our business operations on a larger scale. In the past, we have obtained capital resources from our ongoing operations, public stock and warrant offerings, team member stock option exercises and tenant improvement allowances from our landlords. As an additional source of liquidity, we also have a $45 million credit facility in place that expires on September 30, 2012.

Our capital requirements are principally related to our restaurant expansion plans and restaurant enhancements and initiatives. While our ability to achieve our growth plans is dependent on a variety of factors, some of which are outside of our control, our primary growth objective is to achieve an approximate 13% increase in total restaurant operating weeks during fiscal 2011 from the development and opening of new restaurants, coupled with the carryover impact of partial-year 2010 openings and the impact of the additional operating week in fiscal 2011 as a result of fiscal 2011 being a 53-week fiscal year. Depending on the expected tenant improvement allowances that we receive from our landlords, as well as our other planned capital investments including ongoing maintenance capital expenditures, our base of established restaurant operations may not yet be large enough to generate enough cash flow from operations to totally fund our planned restaurant expansion at the pace that it is currently contemplated over the longer run. Accordingly, we will continue to actively monitor overall conditions in the capital markets with respect to the potential sources and timing of additional financing for our planned future expansion. However, there can be no assurance that such financing will be available when required or available on terms acceptable to us. If we are unable to secure additional capital resources, we may be required to reduce our longer-term planned rate of expansion.

Similar to many restaurant chains, we typically utilize operating lease arrangements (principally ground leases) for the majority of our restaurant locations. We believe our operating lease arrangements continue to provide appropriate leverage for our capital structure in a financially efficient manner. However, we are not limited to the use of lease arrangements as our only method of opening new restaurants. While our operating lease obligations are not currently required to be reflected as indebtedness on our Consolidated Balance Sheets, the minimum rents and other related lease obligations, such as common area expenses, under our lease agreements must be satisfied by cash flows from our ongoing operations. Accordingly, our lease arrangements reduce, to some extent, our capacity to utilize funded indebtedness in our capital structure. In an exposure draft issued in 2010, the FASB, together with the International Accounting Standards Board, has proposed a comprehensive set of changes in GAAP for leases. See Item 1A, Risk Factors, Future changes in financial accounting standards may significantly change our reported results of operations in this Annual Report on Form 10-K.

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

We typically seek to lease our restaurant locations for primary periods of 15 to 20 years under operating lease arrangements. Our rent structures vary from lease to lease, but generally provide for the payment of both minimum and contingent (percentage) rent based on sales, as well as other expenses related to the leases (for example, our pro-rata share of common area maintenance, property tax and insurance expenses). In addition, 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. During fiscal 2010, we secured approximately $5.4 million of committed tenant improvement allowances. However, in light of current conditions in the credit and real estate development markets, there can be no assurance that such allowances will continue to be available to us. As of March 4, 2011, we currently expect to secure approximately $5.1 million of committed tenant improvement allowances for our planned 2011 new restaurant openings. From time to time, we may also decide to purchase the underlying land for a new restaurant if that is the only way to secure a highly desirable site. Currently, we own the land that underlies four of our restaurants, and we may determine at some future point to monetize those assets through a sale-leaseback or other financial transaction, provided that the financial markets for those transactions are functioning normally. We disburse cash for certain site-related work, buildings, leasehold improvements, furnishings, fixtures and equipment to build out our leased and owned premises. We own substantially all of the equipment, furniture and trade fixtures in our restaurants and currently plan to do so in the future.

Our cash flows from operating activities, as detailed in the Consolidated Statements of Cash Flows, provided $74.7 million of net cash during fiscal 2010, representing a $6.4 million increase compared to the $68.3 million generated during fiscal 2009. This net increase in cash from operating activities during fiscal 2010 was primarily due to higher net income and non-cash depreciation and stock-based compensation expenses, coupled with the timing of accrued expense and accounts receivable and tenant improvement allowance collections, offset by the timing of accounts payable payments and less of an increase in our other liabilities as compared to the prior fiscal year.

Total capital expenditures for fiscal 2010 were approximately $68.0 million, of which expenditures for the acquisition of restaurant and brewery equipment and leasehold improvements to construct new restaurants were $43.8 million. These expenditures were primarily related to the construction of our 10 new restaurants that opened during fiscal 2010, as well as construction-in-progress outlays related to restaurants expected to open in fiscal 2011. In addition, total capital expenditures related to the enhancement and maintenance of existing restaurants and expenditures for restaurant and corporate systems were $23.8 million and $0.4 million, respectively, during fiscal 2010.

We filed a shelf registration statement on Form S-3 with the U.S. Securities and Exchange Commission (SEC) on January 7, 2010. The statement was declared effective by the SEC on January 28, 2010, and permits us to raise capital from time to time through the offer and sale of various types of securities not to exceed an aggregate value of $75 million. We do not have any immediate intentions or commitments to sell securities. The terms of any future offering of securities would be established at the time of such offering subject to market conditions. Any offering of securities covered by the shelf registration statement will be made only by means of a written prospectus and prospectus supplement. In addition, the Form S-3 also included the registration of 3,801,730 shares of common stock previously acquired by certain shareholders from the Company in various transactions several years ago. We registered those shares to fulfill our contractual obligations under a registration rights agreement with those shareholders.

We have a $45 million unsecured revolving line of credit with a major financial institution (the Line of Credit). The Line of Credit expires on September 30, 2012 and may be used for working capital and other general corporate purposes. We expect to utilize the Line of Credit principally for standby letters of credit that are required to support certain of our self insurance programs and for working capital and construction requirements as needed. As of December 28, 2010, there were no borrowings outstanding under the Line of Credit and there were outstanding standby letters of credit totaling approximately $4.4 million. Any borrowings under the Line of Credit will bear interest at the financial institution s prime rate or at LIBOR plus a percentage not to exceed 1.375% based on a Lease Adjusted Leverage Ratio as defined in the Line of Credit agreement. The Line of Credit agreement also requires compliance with a Fixed Charge Coverage Ratio, a Lease Adjusted Leverage Ratio and certain non-financial covenants. At December 28, 2010, we were in compliance with these covenants. Any interest on the Line of Credit will be payable quarterly and all related borrowings must be repaid on or before September 30, 2012. While we have the Line of Credit in place and it can be currently drawn upon, it is possible that financial institutions that provide such credit facilities could place limitations or restrictions on the ability of borrowers in general to draw upon such facilities. At this time, however, we have no indication that any such limitations or restrictions are likely to occur.

Our expected capital expenditure outlays for fiscal 2011 will continue to be significant, as we currently plan to open as many as 12 to 13 new restaurants during the year (in addition to our necessary maintenance and key initiative-related capital expenditures). As of March 4, 2011 we have entered into nine signed leases or purchase agreements for potential new restaurant locations, and we expect to enter into additional leases for additional new restaurant locations. We currently anticipate our total capital expenditures for fiscal 2011, including all expenditure categories and excluding any tenant improvement allowances we may receive from landlords, will be approximately $75 to $80 million. We expect to fund our expected capital expenditures for fiscal 2011 with current cash and investment balances on hand, expected cash flow from operations and expected tenant improvement allowances of approximately $5.1 million. 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.

As of December 28, 2010, we had an uncollected outstanding tenant improvement allowance from one landlord in the amount of $1.2 million for one of our restaurants which opened in fiscal 2008. Our lease with that landlord allows us to offset or reduce our rent payable in the event that our tenant improvement allowances cannot be collected. We do not believe that this matter will have a material impact on our overall liquidity, and we are currently seeking the legal enforcement of all of our rights under the lease as we concurrently attempt to negotiate a final settlement of this matter during the next 90 days.

During December 2009, we reached a confidential settlement agreement for the full liquidation of our auction rate securities (ARS) investment portfolio with our former broker-dealer for the portfolio. Under the terms of the settlement, we received approximately $27.4 million in cash (including accrued interest) in exchange for the entire remaining ARS investment portfolio and recorded a pre-tax loss on investment settlement of approximately $1.7 million. In addition, the settlement provides us with additional recoveries, depending upon the performance of the ARS market during the next three years. The cash received in conjunction with the settlement was invested in various financial institutions money market funds as of fiscal year end 2009. As of December 28, 2010, our investments consisted of money market funds, U.S. Treasury and direct agency obligations, municipal and bank securities and investment-grade corporate debt securities with a cost or fair value of $30.5 million, of which $7.8 million are considered cash equivalents and included in cash and cash equivalents on the Consolidated Balance Sheet.

We currently believe that our expected cash flow from operations, cash and investment balances, agreed-upon tenant improvement allowances and our $45 million credit facility should be sufficient, in the aggregate, to finance our planned capital expenditures and other operating activities for fiscal 2011. Our base of established restaurant operations may not yet be large enough to sufficiently generate enough cash flow from operations to totally fund our planned expansion at the pace that it is currently contemplated over the long run. Accordingly, we will continue to actively monitor overall conditions in the capital markets with respect to the potential sources and timing of additional financing for our planned future expansion. However, there can be no assurance that such financing will be available when required or available on terms acceptable to us. If we are unable to secure additional capital resources, we may be required to reduce our longer-term planned rate of expansion.

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 December 28, 2010, we are not involved in any off-balance sheet arrangements.

IMPACT OF INFLATION

Our profitability is dependent, among other things, on our ability to anticipate and react to changes in the costs of key operating resources, including food and other raw materials, labor, energy and other supplies and services. Substantial increases in costs and expenses could impact our operating results to the extent that such increases cannot be passed along to our restaurant guests. While we have taken steps to enter into agreements for some of the commodities used in

our restaurant operations, there can be no assurance that future supplies and costs for such commodities will not fluctuate due to weather and other market conditions outside of our control. We are currently unable to contract for certain commodities, such as fluid dairy and most fresh produce items, for long periods of time. Consequently, such commodities can be subject to unforeseen supply and cost fluctuations. The impact of inflation on food, labor, energy and occupancy costs can significantly affect the profitability of our restaurant operations.

Many of our restaurant team members are paid hourly rates related to the federal or state minimum wage. In fiscal 2007, Congress enacted an increase in the federal minimum wage implemented in three phases, beginning in fiscal 2007 and concluding in fiscal 2009. In addition, numerous state and local governments increased the minimum wage within their jurisdictions. Additionally, a general shortage in the availability of qualified restaurant management and hourly workers in certain geographical areas in which we operate has caused related increases in the costs of recruiting and compensating such team members. Certain operating and other costs, such as health benefits, taxes, insurance and other outside services continue to increase with the general level of inflation and may also be subject to other cost and supply fluctuations outside of our control.

While we have been able to partially offset inflation and other changes in the costs of key operating resources by gradually increasing prices for 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 could 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 guests without any resulting changes in their visit frequencies or purchasing patterns. Many of the leases for our restaurants provide for contingent rent obligations based on a percentage of sales. As a result, rent expense will absorb a proportionate share of any menu price increases in our restaurants. There can be no assurance that we will continue to generate increases in comparable restaurant sales in amounts sufficient to offset inflationary or other cost pressures.

SEASONALITY AND ADVERSE WEATHER

Our business is subject to seasonal fluctuations. Our results of operations have historically been impacted by seasonality, which directly impacts tourism at our coastal California locations. The summer months (June through August) have traditionally been higher volume periods than other periods of the year. Additionally, since 2007, we began opening new restaurants beyond the West Coast and Texas to other Midwest and Eastern states. Accordingly, these restaurants will be impacted by weather and other seasonal factors that typically impact other restaurant operations in those regions. Holidays (and shifts in the holiday calendar), severe winter weather, hurricanes, thunderstorms and similar conditions may impact restaurant sales volumes seasonally in some of the markets where we operate. Many of our restaurants are located in or near shopping centers and malls that typically experience seasonal fluctuations in sales. Quarterly results have been and will continue to be significantly impacted by the timing of new restaurant openings and their associated restaurant opening expenses. As a result of these and other factors, our financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year.

CRITICAL ACCOUNTING POLICIES

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

Fair Value of Investments and Cash Equivalents

We measure the fair value of our investments using quoted market prices in active markets. Generally, our investments classified as held-to-maturity are reported at amortized cost with related gains and losses reflected in earnings in accordance with generally accepted accounting principles. In addition, our investments classified as available-for-sale

are measured at fair value in accordance with the fair value measurements prescribed by generally accepted accounting principles. We believe that the valuation models and methodologies provided by a third party, who uses Level 3 inputs (whereby the inputs for the asset or liability are generally less observable from objective sources), provides us with the appropriate basis to estimate fair value for investments that are not currently trading on the open market. In accordance with generally accepted accounting principles, we recognize temporary changes in the fair value of our available-for-sale investments as unrealized holding gains or losses recorded in other comprehensive income (loss), which is a component of shareholders equity and does not affect net income for the applicable accounting period. For declines in fair value that are below our carrying value and deemed to be other-than-temporary, we would record a charge against net earnings.

We believe the carrying value of cash equivalents approximates fair value because of the short-term nature of those investments.

Property and Equipment

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

Impairment of Long-Lived Assets

We assess potential impairments of our long-lived assets whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors considered include, but are not limited to, significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; and, significant negative industry or economic trends. The recoverability is assessed in most cases by comparing the carrying value of the asset to the undiscounted cash flows expected to be generated by the asset. This assessment process requires the use of estimates and assumptions regarding future cash flows and estimated useful lives, which are subject to a significant degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets. As of December 28, 2010, no impairment indicators have been identified.

Self Insurance

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

Income Taxes

We provide for income taxes based on our estimate of federal and state tax liabilities. Our estimates include, but are not limited to, effective state and local income tax rates, allowable tax credits for items such as FICA taxes paid on

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reported tip income and estimates related to depreciation expense allowable for tax purposes. We usually file our income tax returns several months after our fiscal year-end. We file our tax returns with the advice and compilation of tax consultants. All tax returns are subject to audit by federal and state governments, usually years after the returns are filed, and could be subject to differing interpretation of the tax laws.

Deferred tax accounting requires that we evaluate net deferred tax assets to determine if these assets will more likely than not be realized in the foreseeable future. This test requires projection of our taxable income into future years to determine if there will be taxable income sufficient to realize the tax assets (future tax deductions and tax credit carryforwards). The preparation of the projections requires considerable judgment and is subject to change to reflect future events and changes in the tax laws.

The accounting for uncertainty in tax positions requires that we recognize the impact of a tax position in our consolidated financial statements if that position is more likely than not of being sustained on audit, based on the technical merits of the position. We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 28, 2010, our recorded unrecognized tax benefits were approximately $948,000.

Leases

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

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

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

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

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

In an exposure draft issued in 2010, the FASB, together with the International Accounting Standards Board, has proposed a comprehensive set of changes in GAAP for leases. See Item 1A, Risk Factors, Future changes in financial accounting standards may significantly change our reported results of operations in this Annual Report on Form 10-K.

Stock-Based Compensation

We have two stock-based compensation plans the 2005 Equity Incentive Plan and the 1996 Stock Option Plan under which we may issue shares of our common stock to team members, officers, directors and consultants. Upon effectiveness of the 2005 Equity Incentive Plan, the 1996 Stock Option Plan was closed for purposes of new grants. Both of these plans have been approved by our shareholders. Under the 2005 Equity Incentive Plan, we have granted incentive stock options, non-qualified stock options, and restricted stock units.

On June 8, 2010, at our annual shareholder meeting, our shareholders approved an amended 2005 Equity Incentive Plan which, among other things, (i) increased the number of shares available for issuance by 1,200,000 shares, (ii) changed the fungible ratio on restricted stock awards from 2:1 to 1.5:1, (iii) extended the termination date of the 2005 Equity Incentive Plan to 10 years following the date of approval by the shareholders, and (iv) made certain other administrative changes.

Substantially all of our restaurant general managers, executive kitchen managers, regional kitchen operations managers, directors of operations, area vice presidents and certain brewery operations positions are eligible to participate in our equity-based incentive program called the BJ s Gold Standard Stock Ownership Program (the GSSOP) under our 2005 Equity Incentive Plan. The GSSOP is a longer-term equity incentive program that utilizes Company restricted stock units (RSUs). The GSSOP is dependent on each participant s extended service with us in their respective positions and their achievement of certain agreed-upon performance objectives during that service period (i.e., five years).

Since 2008, we have also issued RSUs as a component of the annual equity grant award to officers and other team members under our 2005 Equity Incentive Plan. Under our 2005 Equity Incentive Plan we have issued approximately 664,000 RSUs as of December 28, 2010, for both the GSSOP program and as part of the annual equity grant awards. The fair value of the RSUs is the quoted market value of our common stock on the date of grant. The fair value of each RSU is expensed over the period during which its related restrictions are expected to lapse (i.e., generally five years). Stock options generally vest at 20% per year or cliff vest, either ratably in years three through five or 100% in year five and expire 10 years from date of grant. RSUs generally vest at 20% per year for other RSU grantees and generally cliff vest at 100% after five years for GSSOP participants.

We account for equity grants these plans in accordance with the fair value recognition provisions required by generally accepted accounting principles using the modified-prospective-transition method. Compensation expense recognized in the 52 weeks ended December 28, 2010 and December 29, 2009, include (a) compensation expense for all share-based payments granted prior to, but not yet vested as of January 4, 2006, based on the grant date fair value estimated in accordance with the original provisions; and, (b) compensation expense for all share-based payments granted subsequent to January 4, 2006, based on the grant date fair value-estimates in accordance with the revised provisions under generally accepted accounting principles. We are required to make certain assumptions and judgments regarding the grant date fair value. These judgments include expected volatility, risk free interest rate, expected option life, dividend yield and vesting percentage. These estimations and judgments are determined by us using many different variables that, in many cases, are outside of our control. The changes in these variables or trends, including stock price volatility and risk free interest rate, may significantly impact the grant date fair value resulting in a significant impact to our financial results. The cash flows tax benefits resulting from tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are required to be classified as financing cash flows.

IMPACT OF RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) approved the FASB Accounting Standards Codification (the Codification) as the single source of authoritative nongovernmental GAAP. All existing accounting standard literature, promulgated by the FASB, American Institute of Certified Public Accountants, Emerging Issues

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Task Force and other authoritative sources, excluding guidance from the SEC, were superseded by the Codification. All non-grandfathered, non-SEC accounting literature not included in the Codification became non-authoritative. The Codification did not change GAAP, but instead introduced a new structure that combined all authoritative standards into a comprehensive, topically organized online database. The Codification was effective for interim or annual periods ending after September 15, 2009, and impacted our consolidated financial statement disclosures beginning with the quarter ending September 29, 2009. There were no changes to the content of our consolidated financial statements or disclosures as a result of implementing the Codification.

In May 2009, the FASB issued a statement on subsequent events (Codification Topic No. 855, *Subsequent Events*), which established general standards of accounting for and disclosure of events that occur after the balance sheet date, but before the financial statements are issued or available to be issued (subsequent events). This statement requires disclosure of the date through which the entity has evaluated subsequent events and the basis for that date. For public entities, this is the date the financial statements are issued. This statement does not apply to subsequent events or transactions that are within the scope of other GAAP and will not result in significant changes in the subsequent events reported by us. This statement was effective for interim or annual periods ending after June 15, 2009. We implemented the provisions of this statement commencing the quarter ended June 30, 2009. We evaluated for subsequent events through the issuance date of these unaudited consolidated financial statements. No recognized or non-recognized subsequent events were noted.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table summarizes our future estimated cash payments under existing contractual obligations as of December 28, 2010, including estimated cash payments due by period (in thousands).

	Payments Due by Period				
	Total	**Less Than 1 Year**	**2-3 Years**	**4-5 Years**	**After 5 Years**
Contractual Obligations					
Operating leases (1)	$304,709	$21,867	$42,939	$41,328	$198,575
Purchase obligations (2)	5,563	2,484	3,079		
Total	$310,272	$24,351	$46,018	$41,328	$198,575
Other Commercial Commitments					
Standby letters of credit	$4,440	$4,440	$	$	$
Long-term debt obligations					
Total	$4,440	$4,440	$	$	$

(1) For more detailed description of our operating leases, refer to Note 6 in the accompanying consolidated financial statements.
(2) Amounts represent non-cancelable commitments for the purchase of goods and other services.

Additionally, we have entered into lease agreements related to future restaurants with commencement dates subsequent to December 28, 2010. Our aggregate future commitment relating to these leases is $13.2 million and is not included in operating leases above.

ITEM 7A. 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.

Our market risk exposures are related to cash and cash equivalents and investments. We invest our excess cash in highly liquid short-term investments with maturities of two years or less as of the date of purchase. These investments are not held for trading or other speculative purposes. Changes in interest rates affect the investment income we earn on our investments

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and, therefore, impact our cash flows and results of operations. For the 52 weeks ended December 28, 2010, the average interest rate earned on cash and cash equivalents and investments was approximately 0.3%. As of December 28, 2010, our cash and cash equivalents and investments consisted of money market funds, treasury bills, agency bonds and domestic corporate obligations with a cost or fair value of approximately $30.5 million, of which $7.8 million are considered cash and cash equivalents. Cash may be in excess of FDIC insurance limits. The majority of our investments, both short-term and long-term, are AAA-rated and directly or indirectly guaranteed by the U.S. Government. We believe we are not exposed to significant risk on cash and cash equivalents and investments. The fair market value of our investments is subject to interest rate risk and would decline in value if market interest rates increased. If market interest rates were to increase immediately and uniformly by 10% from the levels existing as of December 28, 2010, the decline in the fair value of the portfolio would not be material to our financial position, results of operations and cash flows.

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the Consolidated Financial Statements and other data attached hereto beginning on page F-1 of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

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 fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 28, 2010, based on the framework in

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Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 28, 2010.

Ernst & Young LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders

BJ s Restaurants, Inc.

We have audited BJ s Restaurants, Inc. s internal control over financial reporting as of December 28, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). BJ s Restaurants, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and, (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, BJ s Restaurants, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 28, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of BJ s Restaurants, Inc. as of December 28, 2010 and December 29, 2009, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 28, 2010 of BJ s Restaurants, Inc. and our report dated March 9, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Irvine, California

March 9, 2011

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Inherent Limitations on Effectiveness of Controls

Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of control effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have adopted a Code of Business Ethics and a Code of Business Conduct to promote honest and ethical conduct of our business, professional and personal relationships. The Code of Business Ethics covers all executives, including our principal executive officer and principal financial and accounting officer. The Code of Business Conduct is applicable to all directors, executives and other team members. A copy of both the Code of Business Ethics and Code of Business Conduct is available on our website (http://www.bjsrestaurants.com). We intend to post any amendments to or waivers from our Code of Business Ethics and Code of Business Conduct at this website location.

Information with respect to our executive officers is included in Part I, Item 1 of this Annual Report on Form 10-K. Other information required by this Item is hereby incorporated by reference to the information contained in the Proxy Statement relating to the Annual Meeting of Shareholders, which we expect to be filed with the Securities and Exchange Commission no later than 120 days after the close of the year ended December 28, 2010.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the information contained in the Proxy Statement relating to the Annual Meeting of Shareholders, which we expect to file with the Securities and Exchange Commission no later than 120 days after the close of the year ended December 28, 2010.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

The information required by this Item is incorporated herein by reference to the information contained in the Proxy Statement relating to the Annual Meeting of Shareholders, which we expect to file with the Securities and Exchange Commission no later than 120 days after the close of the year ended December 28, 2010.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the information contained in the Proxy Statement relating to the Annual Meeting of Shareholders, which we expect to file with the Securities and Exchange Commission no later than 120 days after the close of the year ended December 28, 2010.

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See Part II, Item 5 Market for Registrant s Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities *Equity Compensation Plan Information* for certain information regarding our equity compensation plans.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the information contained in the Proxy Statement relating to the Annual Meeting of Shareholders, which we expect to file with the Securities and Exchange Commission no later than 120 days after the close of the year ended December 28, 2010.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) CONSOLIDATED FINANCIAL STATEMENTS

The following documents are contained in Part II, Item 8 of this Annual Report on Form 10-K:

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets at December 28, 2010 and December 29, 2009

Consolidated Statements of Income for each of the three fiscal years in the period ended December 28, 2010

Consolidated Statements of Shareholders Equity for each of the three fiscal years in the period ended December 28, 2010

Consolidated Statements of Cash Flows for each of the three fiscal years in the period ended December 28, 2010

Notes to the Consolidated Financial Statements

(2) FINANCIAL STATEMENT SCHEDULES

All schedules are omitted because they are not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

(3) EXHIBITS

Exhibit Number	Description
3.1	Amended and Restated Articles of Incorporation of the Company, as amended, incorporated by reference to Exhibit 3.1 to the Registration Statement on Form SB-2 filed with the Securities and Exchange Commission on June 28, 1996, as amended by the Company s Registration Statement on Form SB-2/A filed with the Commission on August 1, 1996 and the Company s Registration Statement on Form SB-2A filed with the Commission on August 22, 1996 (File No. 3335182-LA) (as amended, the Registration Statement).
3.2	Amended and Restated Bylaws of the Company, incorporated by reference to Exhibits 3.1 to the Form 8-K filed on June 4, 2007.
3.3	Certificate of Amendment of Articles of Incorporation incorporated by reference to Exhibit 3.3 of the 2004 Annual Report.

3.4	Certificate of Amendment of Articles of Incorporation, dated June 8, 2010.
4.1	Specimen Common Stock Certificate of the Company, incorporated by reference to Exhibit 4.1 of the Registration Statement.
10.1**	Summary of Compensation for Non-employee Directors incorporated by reference to Exhibit 10.1 of the Form 10-K for the year ended December 30, 2008.
10.2**	Form of Indemnification Agreement with Officers and Directors, incorporated by reference to Exhibit 10.6 of the Registration Statement.
10.3**	BJ s Restaurants, Inc. Amended and Restated 1996 Stock Option Plan, incorporated by reference to Exhibit 10.4 of the 2004 Annual Report.
10.4**	BJ s Restaurants, Inc. 2005 Equity Incentive Plan, as amended (incorporated by reference to Appendix A to the Company s definitive proxy statement on Schedule 14A filed with the Securities and Exchange Commission on May 3, 2010, with respect to the 2010 Annual Meeting of Shareholders).
10.5**	Stock Option Agreement for Executive Officers and Employees under the 2005 Equity Incentive Plan, incorporated by reference to Exhibit 10.3 of the Form 8-K filed July 1, 2005.
10.6**	Executive Officers and Employee Grant Notice under the 2005 Equity Incentive Plan, incorporated by reference to Exhibit 10.4 of the Form 8-K filed July 1, 2005.
10.7**	Stock Option Agreement for Non-employee Directors under the 2005 Equity Incentive Plan, incorporated by reference to Exhibit 10.8 of the Form 10-K for the year ended January 3, 2006.
10.8**	Non-employee Director Grant Notice under the 2005 Equity Incentive Plan, incorporated by reference to Exhibit 10.9 of the Form 10-K for the year ended January 3, 2006.
10.9	Registration Rights Agreement, incorporated by reference to Exhibit 4.2 of the Form S-3 Registration Statement filed on March 4, 2009.
10.10	Employment Agreement dated April 6, 2010, between the Company and Gerald W. Deitchle, incorporated by reference to Form 8-K filed on April 12, 2010.
10.11**	Employment Agreement, dated October 18, 2010, between the Company and John A. Johnson, employed as Chief Information Officer.
10.12**	Employment Agreement, dated September 6, 2005, between the Company and Gregory S. Levin, employed as Chief Financial Officer, incorporated by reference to Exhibit 10.1 of the Form 10-Q filed on November 3, 2005.
10.13**	Form of Restricted Stock Unit Agreement under the 2005 Equity Incentive Plan, incorporated by reference to Exhibit 10.17 of the Form 10-K filed on March 13, 2007.
10.14**	Form of Employee Non-Qualified Stock Option Agreement under the 2005 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to the Form 10-Q filed on October 31, 2006.
10.15**	Summary of BJ s Restaurants, Inc. Performance Incentive Plan, incorporated by reference to Exhibit 10.20 of the Form 10-K filed on March 13, 2007.
10.16**	Employment Agreement, dated January 19, 2009, between the Company and Wayne L. Jones, employed as Executive Vice President and Chief Restaurant Operations Officer, incorporated by reference to Exhibit 10.1 to Form 10-Q filed on May 1, 2009.
10.17**	Employment Agreement, dated March 2, 2011, between the Company and Kendra D. Miller, employed as Senior Vice President and General Counsel.
10.18**	Employment Agreement, dated August 10, 2005, between the Company and John D. Allegretto, employed as Chief Supply Chain Officer, incorporated by reference to Exhibit 10.2 of the Form 10-Q filed on November 3, 2005.
10.19**	Employment Agreement, dated June 12, 2003, between the Company and Gregory S. Lynds, employed as Chief Development Officer, incorporated by reference to Exhibit 10.26 of the Form 10-K filed on or about March 14, 2008.
10.20**	Form of Restricted Stock Unit Agreement (non-GSSOP) under the 2005 Equity Incentive Plan, incorporated by reference to Exhibit 10.1 to the Form 10-Q filed on November 6, 2007.
10.21**	Form of Restricted Stock Unit Notice (non-GSSOP) under the 2005 Equity Incentive Plan, incorporated by reference to Exhibit 10.2 to the Form 10-Q filed on November 6, 2007.
10.22	Line of Credit Agreement, dated October 17, 2007, between the Company and Bank of America, N.A., incorporated by reference to Exhibit 10.29 of the Form 10-K filed on or about March 14, 2008.
10.23	Amendment No. 1 to Loan Agreement, dated March 18, 2008, between Bank of America, N.A. and the Company, incorporated by reference to Exhibit 10.1 to the Form 10-Q filed on May 9, 2008.

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10.24**	Employment Agreement, dated July 1, 2008, between the Company and Matt Hood, incorporated by reference to Exhibit 10.1 to the Form 10-Q filed on August 5, 2008.
10.25	Stock Purchase Agreement by and between the Company, The Jacmar Companies and William H. Tilley, dated February 22, 2001, incorporated by reference to Exhibit 10.12 of the Form 10-K filed on April 2, 2001.
10.26	Facilitation Agreement between BJ Chicago LLC (LLC) and Chicago Pizza & Brewery, Inc., dated December 20, 2000, in furtherance of the Stock Purchase Agreement between LLC and ASSI, Inc, incorporated by reference to Exhibit 10.13 of the Form 10-K filed on April 2, 2001.
21	List of Subsidiaries.
23.1	Consent of Independent Registered Public Accounting Firm.
31	Section 302 Certifications of Co-Chairman of the Board, Chief Executive Officer and Chief Financial Officer.
32	Section 906 Certification of Co-Chairman of the Board, Chief Executive Officer and Chief Financial Officer.

*** Management contracts or compensation plans or arrangements in which directors or executive officers are eligible to participate.*

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

BJ S RESTAURANTS, INC.
By: /s/ Gerald W. Deitchle
Gerald W. Deitchle

March 7, 2011

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

Pursuant to the requirements of the Securities and Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Capacity	Date
By: /s/ GERALD W. DEITCHLE		
Gerald W. Deitchle	Chairman, President and Chief Executive Officer (Principal Executive Officer)	March 7, 2011
By: /s/ GREGORY S. LEVIN		
Gregory S. Levin	Executive Vice President, Chief Financial Officer and Secretary (Principal Financial and Accounting Officer)	March 7, 2011
By: /s/ PETER A. BASSI		
Peter A. Bassi	Director	March 7, 2011
By: /s/ LARRY D. BOUTS		
Larry D. Bouts	Director	March 7, 2011
By: /s/ JAMES A. DAL POZZO		
James A. Dal Pozzo	Director	March 7, 2011
By: /s/ JOHN F. GRUNDHOFER		
John F. Grundhofer	Director	March 7, 2011
By: /s/ WILLIAM L. HYDE		
William L. Hyde	Director	March 7, 2011
By: /s/ J. ROGER KING		
J. Roger King	Director	March 7, 2011

By: /s/ LEA ANNE S. OTTINGER

Lea Anne S. Ottinger	Director	March 7, 2011

BJ S RESTAURANTS, INC.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders

BJ s Restaurants, Inc.

We have audited the accompanying consolidated balance sheets of BJ s Restaurants, Inc. as of December 28, 2010 and December 29, 2009, and the related consolidated statements of income, shareholders equity and cash flows for each of the three years in the period ended December 28, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BJ s Restaurants, Inc. at December 28, 2010 and December 29, 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 28, 2010, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), BJ s Restaurants, Inc. s internal control over financial reporting as of December 28, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2011, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Irvine, California

March 9, 2011

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BJ S RESTAURANTS, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 28, 2010	December 29, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$31,518	$44,906
Investments	21,674	
Accounts and other receivables	10,041	13,193
Inventories	4,960	3,994
Prepaids and other current assets	2,844	2,423
Deferred income taxes	11,684	9,782
Total current assets	82,721	74,298
Property and equipment, net	330,108	291,913
Goodwill	4,673	4,673
Non-current investments	1,005	
Notes receivable	438	538
Other assets, net	11,140	9,700
Total assets	$430,085	$381,122
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$19,218	$18,408
Accrued expenses	44,867	37,249
Total current liabilities	64,085	55,657
Deferred income taxes	23,977	17,941
Long-term debt		5,000
Other liabilities	54,197	49,545
Total liabilities	142,259	128,143
Commitments and contingencies (Note 6)		
Shareholders equity:		
Preferred stock, 5,000 shares authorized, none issued or outstanding		
Common stock, no par value, 125,000 shares authorized and 27,322 and 26,774 shares issued and outstanding as of December 28, 2010 and December 29, 2009, respectively	173,957	166,807
Capital surplus	24,766	20,231
Retained earnings	89,103	65,941
Total shareholders equity	287,826	252,979
Total liabilities and shareholders equity	$430,085	$381,122

The accompanying notes are an integral part of these consolidated financial statements.

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BJ S RESTAURANTS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

	Fiscal Year		
	2010	**2009**	**2008**
Revenues	$513,860	$426,707	$374,076
Costs and expenses:			
Cost of sales	126,078	106,484	94,412
Labor and benefits	178,199	149,075	131,328
Occupancy and operating	109,566	92,204	80,212
General and administrative	34,632	29,484	27,264
Depreciation and amortization	28,878	24,119	19,184
Restaurant opening	5,189	5,327	7,384
Loss on disposal of assets	1,164	312	855
Natural disaster and related			446
Legal settlements and terminations			2,086
Total costs and expenses	483,706	407,005	363,171
Income from operations	30,154	19,702	10,905
Other income (expense):			
Interest income	124	292	1,824
Interest expense	(90)	(78)	(60)
Loss on investment settlement		(1,709)	
Other income, net	612	379	376
Total other income (expense)	646	(1,116)	2,140
Income before income taxes	30,800	18,586	13,045
Income tax expense	7,638	5,548	2,737
Net income	$23,162	$13,038	$10,308
Net income per share:			
Basic	$0.86	$0.49	$0.39
Diluted	$0.82	$0.48	$0.39
Weighted average number of shares outstanding:			
Basic	27,073	26,750	26,484
Diluted	28,167	27,147	26,749

The accompanying notes are an integral part of these consolidated financial statements.

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BJ S RESTAURANTS, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands)

	Common Stock				Accumulated Other Comprehensive	
	Shares	Amount	Capital Surplus	Retained Earnings	(Loss) Income	Total
Balance, January 1, 2008	26,358	$165,578	$12,350	$42,595	$	$220,523
Exercise of stock options, net	360	1,071				1,071
Stock-based compensation expense			3,605			3,605
Tax benefit from stock option exercises			1,153			1,153
Other comprehensive income:						
Net income				10,308		10,308
Net unrealized loss on investments					(4,383)	(4,383)
Other comprehensive income						5,925
Balance, December 30, 2008	26,718	166,649	17,108	52,903	(4,383)	232,277
Exercise of stock options, net	40	158				158
Issuance of restricted stock units	16					
Stock-based compensation expense			3,093			3,093
Tax benefit from stock option exercises			30			30
Net income				13,038		13,038
Reversal of net unrealized loss on investments					4,383	4,383
Other comprehensive income						17,421
Balance, December 29, 2009	26,774	166,807	20,231	65,941		252,979
Exercise of stock options, net	509	7,150				7,150
Issuance of restricted stock units	39					
Stock-based compensation expense			4,188			4,188
Tax benefit from stock option exercises			347			347
Net income				23,162		23,162
Balance, December 28, 2010	27,322	$173,957	$24,766	$89,103	$	$287,826

The accompanying notes are an integral part of these consolidated financial statements.

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BJ S RESTAURANTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Fiscal Year		
	2010	**2009**	**2008**
Cash flows from operating activities:			
Net income	$23,162	$13,038	$10,308
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	28,878	24,119	19,184
Deferred income taxes	4,133	5,036	2,211
Stock-based compensation expense	4,005	2,914	3,343
Loss on disposal of assets	1,164	312	855
Loss on investment settlement		1,709	
Natural disaster and related			596
Changes in assets and liabilities:			
Accounts and other receivables	186	(1,400)	1,001
Inventories	(966)	(388)	(1,062)
Prepaids and other current assets	(421)	2,077	(1,056)
Other assets, net	(1,519)	(955)	(233)
Accounts payable	810	3,121	4,509
Accrued expenses	7,618	5,922	5,258
Other liabilities	4,653	14,530	13,284
Landlord contribution for tenant improvements, net	2,966	(1,709)	313
Net cash provided by operating activities	74,669	68,326	58,511
Cash flows from investing activities:			
Purchases of property and equipment	(68,031)	(60,015)	(79,183)
Proceeds from investments sold	7,858	31,960	12,600
Purchases of investments	(30,481)		(6,500)
Collection of notes receivable	100	95	83
Proceeds from sale of assets			
Net cash used in investing activities	(90,554)	(27,960)	(73,000)
Cash flows from financing activities:			
Borrowings on line of credit			22,500
Payments on line of credit	(5,000)	(4,500)	(13,000)
Excess tax benefit from stock-based compensation	347	30	1,153
Proceeds from exercise of stock options	7,150	158	1,071
Net cash provided by (used in) financing activities	2,497	(4,312)	11,724
Net (decrease) increase in cash and cash equivalents	(13,388)	36,054	(2,765)
Cash and cash equivalents, beginning of year	44,906	8,852	11,617
Cash and cash equivalents, end of year	$31,518	$44,906	$8,852
Supplemental disclosure of cash flow information:			
Cash paid for interest, net of capitalized interest	$	$	$

Cash paid for income taxes	$2,259	$1,412	$1,454

Supplemental disclosure of non-cash financing activity:
For the 52 weeks ended December 28, 2010 and December 29, 2009, $183 and $179 of non-cash stock-based compensation, respectively, was capitalized related to the development and construction of our new restaurants.

The accompanying notes are an integral part of these consolidated financial statements.

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BJ S RESTAURANTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company and Summary of Significant Accounting Policies

Description of Business

BJ s Restaurants, Inc. (referred to herein as the Company or BJ s or in the first person notations we, us and our) was incorporated in Califo October 1, 1991, to assume the management of five BJ s Chicago Pizzeria restaurants then in existence and to develop additional BJ s restaurants. As of December 28, 2010, we owned and operated 102 restaurants located in California, Texas, Arizona, Colorado, Oregon, Nevada, Florida, Ohio, Oklahoma, Kentucky, Indiana, Louisiana and Washington. Each of our restaurants is currently operated as a BJ s Restaurant & Brewery, BJ s Restaurant & Brewhouse, or BJ s Pizza & Grill. During fiscal 2010, we opened ten new restaurants. Three of our BJ s Restaurants & Brewery locations manufacture our signature, proprietary BJ s beer on the restaurant premises. All of our other restaurants receive their BJ s beer either from one of these three brewery locations and/or third-party contract brewers.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of BJ s Restaurants, Inc. and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) requires management to make estimates and assumptions for the reporting period and as of the financial statement date. 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 results could differ from those estimates.

Our fiscal year ends on the Tuesday closest to December 31st for financial reporting purposes. Fiscal years 2010, 2009 and 2008 ended on December 28, 2010, December 29, 2009 and December 30, 2008, respectively, and each fiscal year contained 52 weeks.

Segment Disclosure

The Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (Codification) Topic No. 280, *Segment Reporting*, which established standards for disclosures about products and services, geographic areas and major customers. We currently operate in one operating segment: casual dining restaurants, three of which have mircrobreweries which produce BJ s signature, proprietary beers. Additionally, we operate in one geographic area: the United States of America.

Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments, money market funds and certificates of deposit with an original maturity of three months or less when purchased. Cash and cash equivalents are stated at cost, which approximates fair market value.

Investments

Our investment policy restricts the investment of our excess cash balances to instruments with minimal volatility, such as money market funds, U.S. Treasury and direct agency obligations, municipal and bank securities and investment-grade corporate debt securities. Investments and marketable securities, which we have the intent and ability to hold until maturity, are classified as held-to-maturity securities and reported at amortized cost with related gains and losses reflected in earnings. Debt securities classified as available-for-sale securities are reported at their fair value, with unrealized gains and losses excluded from net income and reported as a separate component of shareholders equity

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(net of related tax effect) until realized. Any fluctuation in fair value related to investments that are deemed temporary, including any recoveries of previous write-downs, are recorded to accumulated other comprehensive income (loss). Realized gains or losses are determined on the specific identification cost method and recorded as a charge to earnings, when realized.

As of December 28, 2010, all of our investments and marketable securities were classified in the held-to-maturity category. We had no investments and marketable securities as of December 29, 2009. At December 30, 2008, all of our investments and marketable securities were classified in the available-for-sale category even though our liquidity position and requirements, at the time, provided us with the ability to hold such securities to maturity.

Concentration of Credit Risk

Financial instruments which potentially subject us to a concentration of credit risk principally consist of cash and cash equivalents, investments and marketable securities. We currently maintain our day-to-day operating cash balances with a major financial institution. At times, our operating cash balances may be in excess of the FDIC insurance limit. At December 28, 2010, we had approximately $30.5 million of investments, of which $7.8 million were considered cash and cash equivalents, held by institutional brokers. We have placed a majority of our temporary excess cash with major financial institutions and institutional brokers that, in turn, invests in instruments with minimal volatility, such as money market funds, U.S. Treasury and direct agency obligations, municipal and bank securities, investment-grade corporate debt securities. Our investment policy limits the amount of exposure to any one institution or investment. We have not experienced any losses in these accounts and believe we are not exposed to significant risk on cash and cash equivalents.

Inventories

Inventories are comprised primarily of food and beverage products and are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives. Leasehold improvements are amortized over the estimated useful life of an asset or the primary lease term of the respective lease including exercised options, whichever is shorter. Renewals and betterments that materially extend the life of an asset are capitalized while maintenance and repair costs are expensed as incurred. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation or amortization accounts are relieved, and any gain or loss is included in earnings.

Depreciation and amortization are recorded using the straight-line method over the following estimated useful lives:

Furniture and fixtures	10 years
Equipment	5-10 years
Brewery equipment	20 years
Building improvements	the shorter of 20 years or the remaining lease term
Leasehold improvements	the shorter of the useful life or the lease term

Goodwill and Intangible Assets

Management performs impairment testing annually and more frequently if factors and circumstances indicate an impairment may have occurred. Intangible assets with finite lives are amortized over their estimated useful lives. Management has performed its impairment testing and believes that no impairments existed at December 28, 2010.

Included in other assets are trademarks, which are amortized over 10 years.

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Long-Lived Assets

We assess potential impairments of our long-lived assets whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Factors considered include, but are not limited to, significant underperformance relative to expected historical or projected future operating results; significant changes in the manner of use of the acquired assets or the strategy for the overall business; and, significant negative industry or economic trends. The recoverability is assessed in most cases by comparing the carrying value of the asset to the undiscounted cash flows expected to be generated by the asset. This assessment process requires the use of estimates and assumptions regarding future cash flows and estimated useful lives, which are subject to a significant degree of judgment. If these assumptions change in the future, we may be required to record impairment charges for these assets. We believe that no impairment of the carrying value of our long-lived assets existed at December 28, 2010.

Revenue Recognition

Revenues from food and beverage sales at restaurants are recognized when payment is tendered at the point-of-sale. Revenues from the sale of gift cards are deferred and recognized upon redemption. Deferred gift card revenue included in accrued expenses on the accompanying balance sheets was $5.4 million and $4.7 million as of December 28, 2010 and December 29, 2009, respectively. We recognize gift card breakage income when the likelihood of the redemption of the cards becomes remote, which is typically 24 months after original issuance. Gift card breakage income is recorded in Other income, net on the Consolidated Statements of Income.

Sales Taxes

Revenues are presented net of sales taxes. The obligation is included in other accrued expenses until the taxes are remitted to the appropriate taxing authorities.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for fiscal 2010, 2009, and 2008 was approximately $4.2 million, $5.2 million and $3.3 million, respectively.

Income Taxes

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

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

Restaurant Opening Expense

Restaurant payroll, supplies, other start-up costs and rental expense incurred prior to the opening of a new restaurant are expensed as incurred.

Natural Disaster and Related

Natural disaster and related costs relate to property and facility damages incurred from hurricanes Gustav and Ike in excess of related insurance coverage received.

Legal Settlements and Terminations

Legal settlements and terminations principally related to accrued compensation and related benefits resulting from the December 2008 departure of our two co-founders and estimated costs to settle two California employment practice lawsuits that had been outstanding since 2004 and 2005.

Loss on Investment Settlement

Loss on investment settlement relates to the confidential settlement agreement reached in December 2009 for the full liquidation of our auction rate securities (ARS) investment portfolio with our former broker-dealer for the portfolio. Under the terms of the settlement, we received approximately $27.4 million in cash (including accrued interest) plus the potential for additional recoveries based on the performance of the auction rate securities market over the next three years in exchange for the entire remaining ARS investment portfolio. We recorded a pre-tax loss associated with this settlement of approximately $1.7 million. The related guaranteed future payment is recorded as a long term receivable in non-current assets.

Leases

We leased 98 of our 102 restaurant locations that were open as of December 28, 2010. We account for our leases in accordance with generally accepted accounting principles which require that our leases be evaluated and classified as operating or capital leases for financial reporting purposes. The term used for this evaluation includes renewal option periods only in instances in which the exercise of the renewal option can be reasonably assured and failure to exercise such option would result in an economic penalty. All of our restaurant leases are classified as operating leases. We disburse cash for leasehold improvements, furniture and fixtures and equipment to build out and equip our leased premises. Tenant improvement allowance incentives may be available to partially offset the cost of developing and opening the related restaurants, pursuant to agreed-upon terms in our leases. Tenant improvement allowances can take the form of cash payments upon the opening of the related restaurants, full or partial credits against minimum or percentage rents otherwise payable by us or a combination thereof. All tenant improvement allowances received by us are recorded as a deferred rent obligation and amortized over the term of the lease. The related cash received from the landlord is reflected as landlord contribution for tenant improvements, net within operating activities of our Consolidated Statements of Cash Flows.

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

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

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

Management makes judgments regarding the probable term for each restaurant property lease, which can impact the classification and accounting for a lease as capital or operating, the rent holiday and/or escalations in payments that are

taken into consideration when calculating straight-line rent and the term over which leasehold improvements for each restaurant are amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

In an exposure draft issued in 2010, the FASB, together with the International Accounting Standards Board, has proposed a comprehensive set of changes in GAAP for leases. While the Exposure Draft addresses new financial accounting rules for both lessors and lessees, the primary focus will likely be on changes affecting lessees. The lease accounting model contemplated by the new standard is a right of use model that assumes that each lease creates an asset (the lessee s right to use the leased asset) and a liability (the future rental payment obligations) which should be reflected on a lessee s balance sheet to fairly represent the lease transaction and the lessee s related financial obligations. Currently, the leases for our 99 leased restaurants are accounted for as operating leases, with no related assets and liabilities on our balance sheet. While no fixed date has been determined for the issuance of the final standard, it is generally expected that the final standard will be issued by late 2011. Changes in these accounting rules or their interpretation, or changes in underlying assumptions, estimates or judgments by us could significantly change our reported or expected financial performance.

Fair Value of Financial Instruments

The carrying value of cash and cash equivalents, investments classified as held-to-maturity or current assets, accounts receivable, and current liabilities approximate fair values due to the short-term maturity of these instruments. Investments classified as available-for-sale or non-current assets are recorded at fair value based on valuation models and methodologies provided by a third party using Level 3 inputs when the fair value of the investment cannot be determined based on current trades on the open market. The fair value of long-term debt is determined using current applicable rates for similar instruments as of the balance sheet date and approximates the carrying value of such obligations. Temporary changes in fair value results in unrealized holding gains and losses being recorded in the other comprehensive income (loss) component of shareholders equity and does not affect net income for the applicable accounting period. Declines in fair value below our carrying value deemed to be other than temporary are charged against net earnings.

Net Income Per Share

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. At December 28, 2010, approximately 664,000 shares of restricted stock units issued to team members were unvested, and were therefore excluded from the calculation of basic earnings per share for the 52 weeks ended December 28, 2010. Diluted net income per share includes the dilutive effect of both outstanding stock options and restricted stock units, calculated using the treasury stock method. Assumed proceeds from the in-the-money options include the windfall tax benefits, net of shortfalls, calculated under the as-if method.

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

		Fiscal Year	
	2010	**2009**	**2008**
Numerator:			
Net income for basic and diluted net income per share	$ 23,162	$ 13,038	$ 10,308
Denominator:			
Weighted-average shares outstanding - basic	27,073	26,750	26,484
Effect of dilutive common stock options and restricted stock units	1,094	397	265
Weighted-average shares outstanding - diluted	28,167	27,147	26,749

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At December 28, 2010, December 29, 2009 and December 30, 2008, there were approximately 0.2 million, 1.5 million, and 2.2 million shares of common stock equivalents, respectively, that have been excluded from the calculation of diluted net income per share because they are anti-dilutive.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) includes all changes in equity during a period except those resulting from investment by and distribution to shareholders. Other comprehensive income (loss) reported on our Consolidated Statements of Shareholders Equity consist of net income and unrealized gains or losses on available-for-sale investments.

Stock-Based Compensation

We have two stock-based compensation plans the 2005 Equity Incentive Plan and the 1996 Stock Option Plan under which we may issue shares of our common stock to team members, officers, directors and consultants. Upon effectiveness of the 2005 Equity Incentive Plan, the 1996 Stock Option Plan was closed for purposes of new grants. Both of these plans have been approved by our shareholders. Under the 2005 Equity Incentive Plan, we have granted incentive stock options, non-qualified stock options, and restricted stock units.

We account for equity grants these plans in accordance with the fair value recognition provisions required by generally accepted accounting principles using the modified-prospective-transition method. Compensation expense recognized in the 52 weeks ended December 28, 2010 and December 29, 2009 include (a) compensation expense for all share-based payments granted prior to, but not yet vested as of January 4, 2006, based on the grant date fair value estimated in accordance with the original provisions; and, (b) compensation expense for all share-based payments granted subsequent to January 4, 2006, based on the grant date fair value-estimates in accordance with the revised provisions under generally accepted accounting principles.

Recent Accounting Pronouncements

In June 2009, the FASB approved the FASB Accounting Standards Codification (the Codification) as the single source of authoritative nongovernmental GAAP. All existing accounting standard literature, promulgated by the FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and other authoritative sources, excluding guidance from the SEC, were superseded by the Codification. All non-grandfathered, non-SEC accounting literature not included in the Codification became non-authoritative. The Codification did not change GAAP, but instead introduced a new structure that combined all authoritative standards into a comprehensive, topically organized online database. The Codification was effective for interim or annual periods ending after September 15, 2009, and impacted our consolidated financial statement disclosures beginning with the quarter ending September 29, 2009. There were no changes to the content of our consolidated financial statements or disclosures as a result of implementing the Codification.

In May 2009, the FASB issued a statement on subsequent events (Codification Topic No. 855, *Subsequent Events*), which established general standards of accounting for and disclosure of events that occur after the balance sheet date, but before the financial statements are issued or available to be issued (subsequent events). This statement requires disclosure of the date through which the entity has evaluated subsequent events and the basis for that date. For public entities, this is the date the financial statements are issued. This statement does not apply to subsequent events or transactions that are within the scope of other GAAP and will not result in significant changes in the subsequent events reported by us. This statement was effective for interim or annual periods ending after June 15, 2009. We implemented the provisions of this statement commencing the quarter ended June 30, 2009. We evaluated for subsequent events through the issuance date of these unaudited consolidated financial statements. No recognized or non-recognized subsequent events were noted.

Reclassifications

Certain reclassifications of prior year s financial statement amounts have been made to conform to the current year s format.

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2. Investments

Investments consist of the following (in thousands):

	Amortized Cost	Average Maturity
At December 28, 2010		
Short-term investments:		
U.S. Treasury and direct agency obligations	$6,711	7.7 months
Domestic corporate obligations	14,963	15.7 months
	$21,674	
Non-current investments:		
Domestic corporate obligations	$1,005	19.0 months
	$1,005	
At December 29, 2009		
Available-for-sale - ARS investments	$	

All investments held as of December 28, 2010, are currently classified as held-to-maturity and are reported at amortized cost. Realized gains or losses are determined on the specific identification cost method and recorded on the Consolidated Statements of Income, when realized. The domestic corporate obligations included as non-current investments were issued under the Temporary Loan Guaranty Program of the U.S. Government and are fully insured by the Federal Deposit Insurance Corporation.

In December 2009, we reached a confidential settlement agreement for the full liquidation of our auction rate securities (ARS) investment portfolio with our former broker-dealer for the portfolio. These ARS investments were classified as available-for-sale and reported at their fair value with unrealized gains and losses excluded from net income and reported as a separate component of shareholders equity (net of related tax effect). During fiscal year 2009 and prior to the settlement, we received partial redemptions on these ARS investments, totaling $4.2 million. Under the terms of the settlement agreement, we received approximately $27.4 million in cash (including accrued interest) plus the potential for additional recoveries based on the performance of the auction rate securities market over the next three years in exchange for the entire remaining ARS investment portfolio. During 2009, we recorded an associated pre-tax loss on this settlement of approximately $1.7 million. As a result, the prior net unrealized loss on investments was reversed from other comprehensive income during fiscal 2009. The majority of the proceeds from the investment settlement were invested with another broker into investment-grade money market funds. These investments were considered cash equivalents and reported at cost, which approximated fair value at December 29, 2009.

3. Fair Value Measurement

For assets that are measured using quoted market prices in active markets, fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. At December 28, 2010, we had approximately $30.5 million of investments, of which $7.8 million are considered cash and cash equivalents, held by institutional brokers. We have placed a majority of our temporary excess cash with major financial institutions and institutional brokers that, in turn, invests in instruments with minimal volatility, such as money market funds, U.S. Treasury and direct agency obligations, municipal and bank securities, investment-grade corporate debt securities. Our investment policy limits the amount of exposure to any one institution or investment. We have not experienced any losses in these accounts and believe we are not exposed to significant risk on these investments.

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4. Property and Equipment

Property and equipment consisted of the following (in thousands):

	December 28, 2010	December 29, 2009
Land	$6,531	$6,453
Building improvements	146,423	126,412
Leasehold improvements	124,958	109,291
Furniture and fixtures	55,041	42,813
Equipment	102,282	83,417
	435,235	368,386
Less accumulated depreciation and amortization	(116,448)	(88,916)
	318,787	279,470
Construction in progress	11,321	12,443
	$330,108	$291,913

5. Accrued Expenses

Accrued expenses consisted of the following (in thousands):

	December 28, 2010	December 29, 2009
Payroll related	$15,854	$12,974
Workers compensation	6,347	4,113
Deferred revenue from gift cards	5,428	4,743
Sales taxes	3,827	3,432
Landlord contribution for tenant improvements - current	2,642	2,443
Other taxes	2,147	2,516
Other current rent related	2,104	1,729
Legal settlements and terminations	820	841
Other	5,698	4,458
	$44,867	$37,249

6. Commitments and Contingencies

Leases

We lease our restaurant and office facilities under noncancelable operating leases with remaining terms ranging from approximately 1 to 20 years with renewal options ranging from 5 to 20 years. Rent expense for fiscal 2010, 2009, and 2008 was $23.3 million, $20.6 million, and $18.3 million, respectively.

We have certain operating leases, which contain fixed rent escalation clauses. Rent expense for these leases has been calculated on the straight-line basis over the term of the leases, resulting in deferred rent of approximately $13.0 million and $11.1 million at December 28, 2010 and December 29, 2009, respectively. The deferred rent is included in other liabilities on the accompanying balance sheet and will be amortized to rent expense over the life of the leases.

A number of the leases also provide for contingent rentals based on a percentage of sales above a specified minimum. Total contingent rentals, included in rent expense, above the minimum, for fiscal 2010, 2009, and 2008 were approximately $3.5 million, $3.1 million and $3.1 million, respectively.

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Future minimum annual rental payments under noncancelable operating leases are as follows (in thousands):

2011	$21,867
2012	21,696
2013	21,243
2014	21,111
2015	20,217
Thereafter	198,575
	$ 304,709

Additionally, we have entered into lease agreements related to the construction of future restaurants with commencement dates subsequent to December 28, 2010. Our aggregate future commitment relating to these leases is $13.2 million.

Legal Proceedings

We are subject to a number of private lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. These claims typically involve claims from guests, employees and others related to operational issues common to the foodservice industry. A number of these claims may exist at any given time. We believe that most of our guest claims will be covered by our general liability insurance, subject to certain deductibles and coverage limits. Punitive damages awards and employee unfair practice claims, however, are not covered by our general liability insurance. To date, we have not paid 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, employee unfair practice claims or any other actions. 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.

The following paragraphs describe certain legal matters recently settled or pending:

Labor Related Matters

On February 5, 2004, a former team member of ours, on behalf of herself and allegedly other team members, filed a class action complaint in Los Angeles County, California, Superior Court, and on March 16, 2004, filed an amended complaint alleging causes of action for: (1) failure to pay reporting time minimum pay; (2) failure to allow meal breaks; (3) failure to allow rest breaks; (4) waiting time penalties; (5) civil penalties; (6) reimbursement for fraud and deceit; (7) punitive damages for fraud and deceit; and, (8) disgorgement of illicit profits. On June 28, 2004, the plaintiff stipulated to dismiss her second, third, fourth and fifth causes of action. During September 2004, the plaintiff stipulated to binding arbitration of the action. On March 2, 2008, and again on March 19, 2008, one of plaintiff s attorneys filed a notice with the California Labor and Workforce Development Agency, alleging failure to keep adequate pay records and to pay plaintiff minimum wage. To our knowledge, the Agency has not responded to either of these notices. In November 2008, the parties agreed to settle this matter subject to final approval from the arbitrator and confirmation from the court. The arbitrator approved the settlement and the arbitration in September 2010. The arbitrator signed a judgment that dismissed the arbitration in October 2010. The judgment was processed for final court confirmation and confirmed by the court, with a Notice of Entry entered in December 2010. The 60-day period for appealing the Court Order expired in February 2011 and, as a result, the administration of funding the settlement has commenced. The terms of this proposed settlement are not considered by us to be material to our consolidated financial position.

On April 6, 2009, a team member filed a class action complaint in Orange County, California, Superior Court on behalf of himself and allegedly other team members. The complaint alleges causes of action for failure to pay plaintiff and other alleged class members regular wages and overtime pay, failure to maintain the designated wage scale and secret

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payment of lower wages, the greater of actual damages or penalties for failure to provide accurate wage statements, and restitution of wages and injunction for violation of California Business and Professions Code. The complaint also seeks interest, attorneys fees and costs. On October 1, 2010, the court preliminarily approved a proposed settlement of this action as requested by the parties and set a final approval hearing for February 18, 2011. The 60-day period for appealing the Court Order and Judgment will expire on or about May 1, 2011. The terms of this proposed settlement are not considered by us to be material to our consolidated financial position.

On February 4, 2009, a team member, on behalf of himself and allegedly other team members filed a class action complaint in Fresno County, California, Superior Court, which complaint was served on us in the second quarter of 2009. The complaint alleges causes of action for failure to pay wages for on-call time, for violation of California Business and Professional Code and for penalties for unpaid wages. The complaint also seeks a constructive trust on money found unlawfully acquired, an injunction against failure to pay wages, restitution, interest, attorney s fees and costs. On August 14, 2009, a first amended complaint was filed, in which two other team members joined the action as plaintiffs. An answer to the operative complaint, denying the allegations, has been filed and we are in the process of continuing discovery. We intend to vigorously defend our position in this action.

On August 25, 2009, a former team member of ours filed a lawsuit in Los Angeles County, California, Superior Court, on behalf of himself and allegedly other team members, namely our California restaurant assistant managers, kitchen managers and other managers. The complaint, as amended, alleges our California restaurant assistant managers are not exempt for compensation purposes and alleges causes of action for failure to pay overtime wages, failure to provide meal breaks and rest periods, failure to pay wages timely, penalties for unpaid wages, failure to provide accurate wage statements, failure to keep accurate payroll records, violation of California Business and Professions Code, and failure to reimburse class members for business expenses. The complaint also seeks unspecified damages, restitution, an injunction against unfair practices, interest, attorneys fees and costs. In January 2010, on our motion, the Court ordered the venue of the case moved to Orange County. The motion to transfer the case was granted. A second amended complaint was filed similar to the first amended complaint except stated in greater detail. We filed a demurrer and a motion to strike portions of the second amended complaint. As a result, the team member conceded on some of the issues raised and the court permitted him to file a third amended complaint. We have responded to the third amended complaint and intend to vigorously defend our position in this action.

Letters of Credit

We have irrevocable standby letters of credit outstanding as required under the our workers compensation policy that total $4.4 million as of December 28, 2010, which automatically renews each October 31 for one year unless 30 day notice, prior to such renewal date, is given by the bank. The standby letters of credit have been issued under our $45 million line of credit and therefore reduce the amount available for borrowing under the credit facility.

Other Commitments

We have severance and employment agreements with certain of our executive officers that provide for payments to those officers in the event of a termination of their employment as a result of a change in control of or without cause, as defined in those agreements. Aggregate payments totaling approximately $1.8 million would have been required by those agreements had all such officers terminated their employment for those reasons as of December 28, 2010.

7. Long-Term Debt

Line of Credit

We have a $45 million unsecured revolving line of credit with a major financial institution (the Line of Credit). The Line of Credit expires on September 30, 2012, and may be used for working capital and other general corporate purposes. We expect to utilize the Line of Credit principally for letters of credit that are required to support certain of our self insurance programs and for working capital and construction requirements as needed. As of December 28, 2010, there were no borrowings outstanding under the Line of Credit and there were outstanding letters of credit totaling approximately $4.4 million. Any borrowings under the Line of Credit will bear interest at the financial

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institution s prime rate or at LIBOR plus a percentage not to exceed 1.375% based on a Lease Adjusted Leverage Ratio as defined in the Line of Credit agreement. The Line of Credit agreement also requires compliance with a Fixed Charge Coverage Ratio, a Lease Adjusted Leverage Ratio and certain non-financial covenants. At December 28, 2010, we were in compliance with these covenants. Any interest on the Line of Credit will be payable quarterly and all related borrowings must be repaid on or before September 30, 2012. At December 28, 2010, interest paid on the funded borrowings under the Line of Credit was approximately $22,000, of which $14,000 related to the fifty-two weeks ended December 28, 2010. The weighted average interest rate was approximately 1.1%.

8. Shareholders Equity

Preferred Stock

We are authorized to issue five million shares in one or more series of preferred stock and to determine the rights, preferences, privileges and restrictions to be granted to, or imposed upon, any such series, including the voting rights, redemption provisions (including sinking fund provisions), dividend rights, dividend rates, liquidation rates, liquidation preferences, conversion rights and the description and number of shares constituting any wholly unissued series of preferred stock. No shares of preferred stock were issued or outstanding at December 28, 2010 or December 29, 2009. We currently have no plans to issue shares of preferred stock.

Common Stock

Shareholders are entitled to one vote for each share of common stock held of record. Pursuant to the requirements of California law, shareholders are entitled to accumulate votes in connection with the election of directors. Shareholders of our outstanding common stock are entitled to receive dividends if and when declared by the Board of Directors. The Company has no plans to pay any cash dividends in the foreseeable future.

On June 8, 2010, at our annual shareholder meeting, our shareholders approved an amendment to our Articles of Incorporation to increase the total number of authorized shares of our common stock from 60,000,000 shares to 125,000,000. The additional common stock authorized by the adoption of this amendment has rights identical to our previously outstanding common stock, as described above.

9. Income Taxes

The income tax expense (benefit) consists of the following for the last three fiscal years (in thousands):

		Fiscal Year	
	2010	**2009**	**2008**
Current:			
Federal	$ 1,779	$ (722)	$ (227)
State	1,726	1,234	753
	3,505	512	526
Deferred:			
Federal	4,759	4,921	2,007
State	(626)	115	204
	4,133	5,036	2,211
Provision for income taxes	$ 7,638	$ 5,548	$ 2,737

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The provision for income taxes differs from the amount that would result from applying the federal statutory rate as follows for the last three fiscal years:

	Fiscal Year		
	2010	**2009**	**2008**
Income tax at statutory rates	35.0%	35.0%	35.0%
Permanent differences	(1.4)	0.2	(3.6)
State income taxes, net of federal benefit	2.3	4.7	4.8
Income tax credits	(9.9)	(11.3)	(14.1)
Other, net	(1.2)	1.3	(1.1)
	24.8%	29.9%	21.0%

The components of the deferred income tax asset (liability) consist of the following (in thousands):

	December 28, 2010	December 29, 2009
Property and equipment	$(32,494)	$(25,220)
Goodwill	(1,957)	(1,823)
Investments	292	701
Accrued expense and other liabilities	12,344	10,097
Stock-based compensation	3,243	3,753
Income tax credits	9,160	7,248
Other	(2,881)	(2,703)
Subtotal	(12,293)	(7,947)
Valuation allowance	-	(212)
Net deferred income taxes	$(12,293)	$(8,159)

At December 28, 2010, we had federal and California income tax credit carryforwards of approximately $7.9 million and $1.3 million, respectively, consisting primarily of the credit for FICA taxes paid on reported team member tip income and California enterprise zone credits. The FICA tax credits will begin to expire in 2030 and the California enterprise zone credits do not expire.

Our deferred tax assets are subject to periodic recoverability assessments. The valuation allowance of $0.2 million recorded to other comprehensive income at December 29, 2009, was reversed in fiscal 2010. We believe that it is more likely than not that the deferred tax asset related to long-term capital losses from the settlement of ARS investments will be realized. In addition, the valuation allowance of $1.8 million related to unrealized losses on investments that was recorded to other comprehensive income at December 30, 2008 was reversed in fiscal 2009 as a result of the settlement of ARS investments.

We recognize interest and penalties related to uncertain tax positions in income tax expense. As of December 28, 2010, the amount recorded for interest and penalties changed for tax positions taken in the current year. As of December 28, 2010, unrecognized tax benefits recorded was approximately $948,000, of which approximately $150,000, if reversed, would impact our effective tax rate. We anticipate a decrease of $798,000 to our liability for unrecognized tax benefits within the next twelve-month period due to the settlement of potential outstanding liabilities. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

Balance at January 1, 2008	$ 168
Reductions based on tax positions taken during the current period	(13)

Balance at December 30, 2008	155
Reductions based on tax positions taken during the current period	(10)
Balance at December 29, 2009	145
Additions based on tax positions taken during the current period	803
Balance at December 28, 2010	$ 948

Our uncertain tax positions are related to tax years that remain subject to examination by tax authorities. As of December 28, 2010, the earliest tax year still subject to examination by the Internal Revenue Service is 2007. The earliest year still subject to examination by a significant state or local taxing jurisdiction is 2006.

10. Stock-Based Compensation Plans

We have two stock-based compensation plans the 2005 Equity Incentive Plan and the 1996 Stock Option Plan under which we may issue shares of our common stock to team members, officers, directors and consultants. Upon effectiveness of the 2005 Equity Incentive Plan, the 1996 Stock Option Plan was closed for purposes of new grants. Both of these plans have been approved by our shareholders. Under the 2005 Equity Incentive Plan, we have granted incentive stock options, non-qualified stock options, and restricted stock units.

On June 8, 2010, at our annual shareholder meeting, our shareholders approved an amended 2005 Equity Incentive Plan which, among other things, (i) increased the number of shares available for issuance by 1,200,000 shares, (ii) changed the fungible ratio on restricted stock awards from 2:1 to 1.5:1, (iii) extended the termination date of the 2005 Equity Incentive Plan to 10 years following the date of approval by the shareholders, and (iv) made certain other administrative changes.

As of December 28, 2010, approximately 1.7 million shares were available for future issuance under the Plan. Shares subject to stock options and stock appreciation rights are charged against the Plan share reserve on the basis of one share for each one share granted while shares subject to other types of awards, including restricted stock units, are currently charged against the Plan share reserve on the basis of 1.5 shares for each one share granted. The Plan also contains other limits with respect to the terms of different types of incentive awards and with respect to the number of shares subject to awards that can be granted to a team member during any fiscal year. All options granted under the Plan expire within 10 years of their date of grant.

Substantially all of our restaurant general managers, executive kitchen managers, regional kitchen operations managers, directors of operations, area vice presidents and certain brewery operations positions are eligible to participate in our equity-based incentive program called the BJ s Gold Standard Stock Ownership Program (the GSSOP) under our 2005 Equity Incentive Plan. The GSSOP is a longer-term equity incentive program that utilizes Company restricted stock units (RSUs). The GSSOP is dependent on each participant s extended service with us in their respective positions and their achievement of certain agreed-upon performance objectives during that service period (i.e., five years).

Since 2008, we have also issued RSUs as a component of the annual equity grant award to officers and other team members under our 2005 Equity Incentive Plan. Under our 2005 Equity Incentive Plan we have issued approximately 664,000 RSUs as of December 28, 2010, for both the GSSOP program and as part of the annual equity grant awards. The fair value of the RSUs is the quoted market value of our common stock on the date of grant. The fair value of each RSU is expensed over the period during which its related restrictions are expected to lapse (i.e., generally five years). Stock options generally vest at 20% per year or cliff vest, either ratably in years three through five or 100% in year five and expire 10 years from date of grant. RSUs generally vest at 20% per year for other RSU grantees and generally cliff vest at 100% after five years for GSSOP participants.

We account for equity grants these plans in accordance with the fair value recognition provisions required by generally accepted accounting principles using the modified-prospective-transition method. Compensation expense recognized in the 52 weeks ended December 28, 2010 and December 29, 2009, include (a) compensation expense for all share-based payments granted prior to, but not yet vested as of January 4, 2006, based on the grant date fair value estimated in accordance with the original provisions; and, (b) compensation expense for all share-based payments granted subsequent to January 4, 2006, based on the grant date fair value-estimates in accordance with the revised provisions under generally accepted accounting principles.

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

	Fiscal Year		
	2010	2009	2008
Labor and benefits stock-based compensation	$1,123	$602	$849
General and administrative stock-based compensation	$2,882	$2,312	$2,494
Capitalized stock-based compensation (1)	$183	$179	$262

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

Stock Options

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

	Fiscal Year		
	2010	2009	2008
Expected volatility	34.66%	80.20%	45.95%
Risk free interest rate	2.49%	1.64%	3.23%
Expected option life	5 years	5 years	5 years
Dividend yield	0%	0%	0%
Fair value of options granted	$6.93	$ 7.15	$6.15

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

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The exercise price of the shares under our stock-based compensation plans shall be equal to or exceed 100% of the fair market value of the shares at the date of option grant. The options generally vest over a three to five-year period.

	Options Outstanding		Options Exercisable	
	Shares (in thousands)	Weighted Average Exercise Price	Shares (in thousands)	Weighted Average Exercise Price
Outstanding options at January 1, 2008	2,174	$13.79	1,266	$10.36
Granted	237	$15.28		
Exercised	(359)	$2.98		
Forfeited	(29)	$19.10		
Outstanding options at December 30, 2008	2,023	$15.82	1,321	$14.50
Granted	357	$11.16		
Exercised	(41)	$3.92		
Forfeited	(72)	$18.48		
Outstanding options at December 29, 2009	2,267	$15.21	1,497	$15.32
Granted	546	$19.94		
Exercised	(509)	$14.04		
Forfeited	(260)	$18.37		
Outstanding options at December 28, 2010	2,044	$16.37	1,087	$15.59

Information relating to significant option groups outstanding at December 28, 2010, is as follows (shares in thousands):

Range of Exercise Prices		Options Outstanding			Options Exercisable		
		Amount Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
$ 0.00	$ 5.00	75	0.44	$3.65	75	0.44	$3.65
$ 5.01	$10.00	72	4.78	$9.35	50	3.38	$9.35
$10.01	$15.00	751	5.37	$12.71	524	4.25	$13.61
$15.01	$20.00	762	7.85	$18.42	157	5.87	$17.68
$20.01	$25.00	364	5.65	$22.55	281	4.94	$22.43
$25.01	$30.00	-	-	-	-	-	-
$30.01	$35.00	-	-	-	-	-	-
$35.01	$40.00	20	9.83	$35.13	-	-	-
$ 0.00	$40.00	2,044	6.19	$16.37	1,087	4.36	$15.59

As of December 28, 2010, total unrecognized stock-based compensation expense related to non-vested stock options was $4.1 million, which is expected to be recognized over the remaining five years.

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Restricted Stock Units

Restricted stock unit activity was as follows:

	Shares (in thousands)	Weighted Average Fair Value
Outstanding RSUs at January 1, 2008	253	$20.30
Granted	249	$12.82
Vested		$
Forfeited	(26)	$18.50
Outstanding RSUs at December 30, 2008	476	$16.27
Granted	275	$11.95
Vested or released	(16)	$14.85
Forfeited	(85)	$14.07
Outstanding RSUs at December 29, 2009	650	$14.77
Granted	113	$24.98
Vested or released	(39)	$12.74
Forfeited	(60)	$16.30
Outstanding RSUs at December 28, 2010	664	$16.48

The fair value of the RSUs is the quoted market value of our common stock on the date of grant. The fair value of each RSU is expensed over the period during which the restrictions are expected to lapse (i.e., five years). We recorded stock-based compensation expense related to RSUs of approximately $1.8 million during the 52 weeks ended December 28, 2010. In addition, total unrecognized stock-based compensation expense related to non-vested restricted shares was approximately $5.1 million, which is expected to be generally recognized over the remaining five years.

11. Team Member Benefit Plans

We maintain a voluntary, contributory 401(k) plan for all eligible team members. Team members may elect to contribute up to 100% of their earnings, up to the IRS maximum for the plan year of participation. Additionally, eligible participants may also elect allowable catch-up contributions as provided for by the IRS. Our executive officers and other highly compensated team members are not eligible to participate in the 401(k) plan. Team member contributions are matched by the Company at a rate of 33% for the first 6% of deferred earnings. We contributed approximately $211,000, $159,000 and $129,000 in fiscal 2010, 2009 and 2008, respectively.

In April 2009, we also established the BJ s Restaurants, Inc. Deferred Compensation Plan (DCP). The DCP is a non-qualified deferred compensation plan for our executive officers and other highly compensated team members as defined in the DCP who are otherwise ineligible for participation in our 401(k) plan. The DCP allows participating team members to defer the receipt of a portion of their base compensation and up to 100% of their eligible bonuses. Additionally, the DCP allows for a voluntary company match as determined by the Company s compensation committee. During fiscal 2010, there were no contributions made or accrued by the Company. We pay for related administrative costs, which were not significant during fiscal 2010. Team member deferrals are deposited into a rabbi trust and the funds are generally invested in individual variable life insurance contracts owned by us that are specifically designed to informally fund savings plans of this nature. Our investment in variable life insurance contracts is reflected in Other assets, net on our Consolidated Balance Sheets. Our obligation to participating team members is reflected in noncurrent Other liabilities. All income and expenses related to the rabbi trust are reflected in our Consolidated Statements of Income.

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12. Related Party Transactions

As of December 28, 2010, we believe that Jacmar Companies and their affiliates (collectively referred to herein as Jacmar) owned approximately 11.6% of our outstanding common stock. Jacmar, through its affiliation with Distribution Market Advantage, Inc. (DMA), a national foodservice distribution system whose shareholders are prominent regional foodservice distributors, is currently our largest supplier of food, beverage and paper products servicing our restaurants in California and Nevada, while other DMA system distributors service our restaurants in all other states. We also believe that Jacmar and its affiliates are the controlling shareholder of the Shakey s pizza parlor chain. We believe that Jacmar sells products to us at prices comparable to those offered by unrelated third parties based on our extensive competitive bidding process that resulted in three-year agreements in July 2006 and again in July 2009. Jacmar supplied us with $58.0 million, $51.0 million and $46.8 million of food, beverage, paper products and supplies for fiscal 2010, 2009 and 2008, respectively. These costs represent 24.6%, 25.7% and 26.8% of our total cost of sales and operating and occupancy costs for fiscal 2010, 2009 and 2008, respectively. We had trade payables due to Jacmar related to these products of $3.7 million and $3.6 million at December 28, 2010 and December 29, 2009, respectively. Jacmar does not provide us with any produce, liquor, wine or beer products, all of which are provided by other vendors and included in total cost of sales.

13. Selected Consolidated Quarterly Financial Data (Unaudited)

Our summarized unaudited consolidated quarterly financial data is as follows (in thousands, except per share data):

	March 30, 2010	June 29, 2010	September 28, 2010	December 28, 2010
Total revenues	$121,686	$130,497	$128,781	$132,896
Income from operations	$5,716	$8,559	$7,432	$8,447
Net income	$4,350	$6,334	$5,541	$6,937
Diluted net income per share	$0.16	$0.23	$0.20	$0.24

	March 31, 2009	June 30, 2009	September 29, 2009	December 29, 2009
Total revenues	$102,425	$107,743	$103,904	$112,635
Income from operations	$5,145	$6,201	$4,401	$3,955
Net income	$3,759	$4,389	$3,169	$1,721
Diluted net income per share	$0.14	$0.16	$0.12	$0.06

Diluted net income per share calculations for each quarter are based on the weighted average diluted shares outstanding for that quarter and may not total to the full year amount.

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