BJs RESTAURANTS INC
Form 10-K
February 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 2, 2018

OR

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

Commission file number 0-21423

BJ'S RESTAURANTS, INC.

(Exact name of registrant as specified in its charter)

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

7755 Center Avenue, Suite 300

Huntington Beach, California 92647

(714) 500-2400

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

area code, of registrant's principal executive offices)

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

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

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

None

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

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

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

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

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

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

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

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

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

The aggregate market value of the common stock of the Registrant (“Common Stock”) held by non-affiliates as of the last business day of the second fiscal quarter, July 3, 2017, was $801,592,757, calculated based on the closing price of our common stock as reported by the NASDAQ Global Select Market on such date.

As of February 23, 2018, 20,504,188 shares of the common stock of the Registrant were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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

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BJ’S RESTAURANTS, INC.

PART I

Unless the context indicates otherwise, when we use the words “BJ’s,” “the Company,” “we,” “us” or “our” in this Form 10-K, we are referring to BJ’s Restaurants, Inc., a California corporation, and its subsidiaries.

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

This Form 10-K contains “forward-looking” statements and other information based on the current beliefs and assumptions of our management. Words or phrases such as “believe,” “plan,” “will likely result,” “expect,” “intend,” “will continue,” “is anticipated,” “estimate,” “project,” “may,” “could,” “would,” “should” and similar expressions in this Form 10-K intended to identify “forward-looking” statements. These statements reflect our current perspectives and outlook with respect to our future expansion plans, key business initiatives, expected operating conditions and other factors. We operate in a very competitive and rapidly changing environment, and new risks emerge from time to time. Additional risks and uncertainties that we are currently unaware of, or that we currently deem immaterial, may become important factors that affect us. It is not possible for us to predict the impact of all factors on our business, financial condition or results of operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any “forward-looking” statements. Given the volatility of the operating environment and its associated risks and uncertainties, investors should not rely on “forward-looking” statements as any prediction or guarantee of actual results.

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

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

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

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

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

These cautionary statements are to be used as a reference in connection with any “forward-looking” statements. The factors, risks and uncertainties identified in these cautionary statements are in addition to those contained in any other cautionary statements, written or oral, which may be made or otherwise addressed in connection with a “forward-looking” statement or contained in any of our filings with the U.S. Securities and Exchange Commission (“SEC”). Because of these factors, risks and uncertainties we caution against placing undue reliance on “forward-looking” statements.

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The risks described in this Form 10-K are not the only risks we face. New risks and uncertainties arise from time to time, and we cannot predict those events or how they may affect us. There may be other risks and uncertainties that are not currently known by us or that are currently deemed by us to be immaterial. However, they may ultimately have a material adverse effect on our business, financial condition and/or operating results. Although we believe that the assumptions underlying “forward-looking” statements are reasonable on the dates they are made, any of the assumptions could be incorrect, and there can be no guarantee or assurance that “forward-looking” statements will ultimately prove to be accurate. We do not have any obligation to modify or revise any “forward-looking” statement to take into account or otherwise reflect subsequent events or circumstances arising after the date that the “forward-looking” statement was made. For further information regarding the risks and uncertainties that may affect our future results, please review the information set forth below under “Item 1A. Risk Factors.”

FISCAL PERIODS USED IN THIS FORM 10-K

Throughout this Form 10-K, our fiscal years ended January 2, 2018, January 3, 2017, December 29, 2015, December 30, 2014, and December 31, 2013, are referred to as fiscal years 2017, 2016, 2015, 2014, and 2013, respectively. Our fiscal years consist of 52 or 53 weeks and end on the Tuesday closest to December 31. All fiscal years presented in this Form 10-K, with the exception of fiscal year 2016, consisted of 52 weeks. Additionally, all quarters, with the exception of the fourth quarter in fiscal year 2016, consisted of 13 weeks. Fiscal year 2016 consisted of 53 weeks, with a 14-week fourth quarter; therefore, all financial references to fiscal year 2016 assume 53 weeks of operations, unless noted otherwise.

ITEM 1. BUSINESS

GENERAL

As of February 26, 2018, we owned and operated 197 restaurants located in the 26 states of Alabama, Arizona, Arkansas, California, Colorado, Florida, Indiana, Kansas, Kentucky, Louisiana, Maryland, Michigan, Nevada, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Virginia and Washington. Each of our restaurants is operated either as a BJ’s Restaurant & Brewhouse®, a BJ’s Restaurant & Brewery®, a BJ’s Pizza & Grill®, or a BJ’s Grill® restaurant. Currently, the BJ’s Restaurant & Brewhouse® format represents our primary expansion vehicle. Our BJ’s Restaurant & Brewery locations are similar in size to our BJ’s Restaurant & Brewhouse locations, except that they have a brewing operations attached to the restaurant. Our BJ’s Pizza & Grill® restaurants are smaller format, full-service restaurants which reflect the original format of the BJ’s restaurant concept that was first introduced in 1978. Our BJ’s Grill® restaurant is a slightly smaller footprint restaurant than our BJ’s Restaurant & Brewhouse® format, but still features all the amenities of our Brewhouse locations. Our proprietary craft beer is available in all of our restaurants and produced at several of our BJ’s Restaurant & Brewery® locations, our Temple, Texas brewpub locations and by independent third party brewers using our proprietary recipes.

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

In 1996, we introduced our proprietary craft beers when we opened our first BJ’s Restaurant & Brewery® in Brea, California. Today all of our restaurants feature our award-winning, proprietary craft beers, which we believe showcases the quality and care of the ingredients we use at BJ’s. Our high-quality, craft beers further differentiates BJ’s from many other restaurant concepts and complements our signature deep-dish pizza and other menu items. Our beers have earned over 180 medals at different beer festivals and events, including 34 medals at the Great American Beer Festival and 10 medals at the World Beer Cup. We also offer as many as 30 "guest" domestic and imported craft beers on tap, in addition to a selection of bottled beers in our restaurants. Our large and unique beer offering is intended to enhance BJ's competitive positioning as a leading retailer of beer in the casual dining segment of the restaurant industry.

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

THE BJ's RESTAURANT CONCEPT AND MENU

We compete in the casual dining segment of the restaurant industry, which is a large, highly fragmented segment with estimated annual sales in the $100+ billion range. The casual dining segment has become a fairly mature segment of the restaurant industry. According to some industry analysts and observers, the annual rate of sales growth for the segment has been gradually decreasing as a result of increased competition from innovative quick-service and "fast casual" restaurant concepts and other food-away-from-home retailers, a leveling off of certain favorable demographic trends (the number of two wage-earner households, etc.), and a perceived over-supply of casual dining restaurants compared to demand. We believe that, in addition to these factors, the segment has suffered from low levels of innovation and a general reduction in the overall quality and differentiation of many of the larger, more mature mass market casual dining chains that collectively operate several thousand restaurants.

In contrast to our mass market casual competitors, we believe that the BJ's restaurant concept offers consumers a higher quality, more contemporary and approachable "casual plus" (or "premium casual" or "polished casual") dining experience. The term "casual plus" typically refers to a competitive position that provides greater quality and differentiation when compared to the more mature, mass market casual dining concepts with average customer checks of $13.00 to $19.00, but not necessarily as extensive as the "upscale casual" concepts that typically have average customer checks in excess of $19.00. Accordingly, our primary business objective is to continue taking market share in the casual dining restaurant industry by delivering on our "Gold Standard of Operational Excellence" promise to our customers while continuing our new restaurant national expansion program.

Our Gold Standard of Operational Excellence is our genuine commitment to take pride in passionately connecting with every customer on every visit, through flawless and relentless execution of every detail, during every shift – to create and keep fanatical fans of BJ's. We believe that by delivering upon this commitment to our customers, we will have the best opportunity to generate significant repeat business and capture additional market share in the casual dining segment of the restaurant industry. Our Gold Standard of Operational Excellence is built on the following key pillars that differentiate BJ's from other casual dining restaurant concepts:

Broad and Distinctive Menu – We started as a small sit down pizzeria offering our own California twist on Chicago style deep-dish pizza. Over the years we expanded the BJ's concept and menu to include an array of menu options for any dining occasion. Our menu items are created by our talented culinary team and prepared to order in our restaurants using high-quality ingredients. This broad menu is an important factor in our differentiation from other casual dining competitors. We evaluate our menu offerings and prices two to three times a year in addition to offering seasonal or limited time only menu items. In 2017, we rolled out new slow roasting oven technology to all of our restaurants allowing us to slow cook large format proteins including prime rib, turkey and pork. Our new slow roast Prime Rib Special and our Double Bone-in Pork Chop have become new signature menu items for BJ's showcasing our higher quality, differentiated menu. Our menu entrées, excluding our promotional specials, generally range in price from $7.25 to $24.95. Our average per-customer check during fiscal 2017, including beverages, was approximately $15.75.

Award Winning, Proprietary Craft Beer - All of our restaurants feature our award-winning, proprietary freshly brewed (not pasteurized) craft beers, which we believe not only differentiate us from many other restaurant concepts, but also enhance our ability to provide greater quality and unique experiences to our customers. Approximately 7% of our total restaurant sales in fiscal 2017 consisted of our proprietary craft beers. We also offer as many as 30 "guest" domestic and imported craft beers on tap, in addition to a selection of bottled beers in the majority of our restaurants. Our broad and unique beer offerings are intended to enhance BJ's competitive positioning as a leading retailer of craft beer in the casual dining segment of the restaurant industry.

A Culture Committed to Service and Hospitality – Great dining experiences start with great people. We have invested carefully in making sure we recruit, select, train and retain employees that can take care of our customers and operate our large and complex restaurants. In addition to hiring great employees, we have invested in productivity and hospitality systems in order for us to deliver the Gold Standard of Operational Excellence that we promise our customers. These systems include a Net Promoter Scoring system that evaluates several key elements of our service including pace, hospitality, value and recommend scores, as well as a mystery shopper program and a customer loyalty program. In 2017 we invested in hand held ordering tablets for our servers in order to improve the pace and productivity. We also believe it is important to give back to the communities we serve and to do more good things for more people as exemplified by our BJ’s Restaurants Foundation (the “Foundation”), which was established in fiscal 2006. We were recognized for this effort at the Global Best Practices Conference, where we received the 2017 prestigious Heart of the Workplace Award for our significant commitment to and investment in our employees and communities.

High Energy Atmosphere and Facilities- As part of our competitive positioning as a polished casual dining concept, our restaurants have finishes consistent with more upscale casual dining concepts. All of our restaurants feature high ceilings and have a signature bar statement with large flat screen televisions that can be viewed from any seat. Additionally, we use a variety of higher quality customer touchpoints, including distinctive glassware to fit the beer or beverage style and linen napkins not generally found in casual dining. We believe our large restaurants with their signature bar provide our customers with a higher energy dining experience.

RESTAURANT OPERATIONS

Based on internal and publicly available data, we believe that our larger format brewhouse restaurants, on average, generate relatively high customer traffic per square foot compared to many other casual dining concepts. Therefore, we have implemented operational systems and procedures to support our desire to run our restaurants "quality fast," particularly at peak dining periods, in order to effectively and efficiently serve every customer. The typical management team for a BJ's restaurant consists of a General Manager, an Executive Kitchen Manager and three to five other managers depending on the sales volume of each restaurant. The General Manager is responsible for the day-to-day operations of their restaurant, including hiring, training, and the development of personnel, as well as for sales and operating profit. The Executive Kitchen Manager is responsible for managing food quality and preparation, purchasing, inventories and kitchen labor costs. All of our restaurants prepare detailed monthly operating budgets and compare their actual results to their budgets. We also measure the productivity and efficiency of our restaurant operations using a variety of qualitative and quantitative statistical indicators.

New restaurant managers are required to successfully complete an 11-week comprehensive advanced management training program dedicated to all aspects of the operation of our restaurants including both restaurateuring and restaurant business-related topics. Our restaurant management training program is directed by our Vice President of Operations Talent Development and is closely monitored by our field supervision team. We continuously review our training curriculum for our new managers and existing hourly employees and restaurant managers.

The General Manager of each restaurant reports to a Director of Operations or an Area Vice President, who reports to a Regional or Senior Regional Vice President of Operations. Additionally, we have Directors of Kitchen Operations who oversee the food quality and safety, kitchen efficiency and consistency in our restaurants and help educate, coach and develop our kitchen managers. Our Directors of Kitchen Operations report to our Senior Vice President of Culinary and Kitchen Innovation. Our Regional and Senior Regional Vice Presidents of Operations report to our Executive Vice President of Operations who oversees all aspects of restaurant operations including kitchen and bar operations, restaurant facility management, new restaurant openings and the roll-out of key operational initiatives.

We carefully select, train and supervise our restaurant-level employees ("employees"). Each restaurant typically employs an average of approximately 110 hourly employees, many of whom work part-time. Our goal is to staff our restaurants with qualified, trained and enthusiastic employees who desire to be an integral part of BJ's fun, premium casual atmosphere and, at the same time, have the passion, intensity, work ethic and ability to execute our concept correctly and consistently on every shift. Prior experience in the restaurant industry is only one of the qualities management looks for in our restaurant employees. Enthusiasm, motivation, dependability, integrity, and the ability to interact well and connect with our customers and correctly execute our concept are some of the key qualities of BJ's management and employees.

In order to maintain our high standards, all new restaurant hourly employees undergo formal training from certified Employee Instructors at each restaurant. Our Employee Instructors oversee the training by position for each new hourly employee and are also utilized to support our new restaurant openings. Our hourly team goes through a series of in-depth interactive and automated training programs for their respective positions. Our future growth and success are highly dependent upon our ability to attract, develop and retain qualified restaurant management and hourly employees. We attempt to accomplish this by providing our employees with opportunities for increased responsibilities and advancement as well as performance-driven incentives based on both financial and customer satisfaction metrics. We also support our employees by offering what we believe to be competitive wages and, for eligible employees, competitive fringe benefits (including a 401(k) plan with a company match, medical insurance and dining discounts). Additionally, our General Managers, Executive Kitchen Managers, Directors of Operations and Directors of Kitchen Operations are eligible to be selected to participate in our Gold Standard Stock Ownership Program that operates under the authority of our 2005 Equity Incentive Plan ("the Plan"). This program, which is intended to be a long-term incentive program, provides for equity-based awards. Participation in the Plan requires extended service in good standing with us (generally three to five years).

Our typical restaurant hours of operations are generally from 11:00 a.m. to 12:00 a.m. Sunday through Thursday and 11:00 a.m. to 1:00 a.m. Friday and Saturday. Our restaurants are typically open every day of the year except for Thanksgiving and Christmas. Most of our restaurants currently offer either in-house and/or third party delivery service. Additionally, all restaurants offer a call-ahead or online wait list, on-line ordering for dine-in or customer pick-up and reservations for large parties.

RESTAURANT SITE SELECTION AND EXPANSION OBJECTIVES

Our BJ’s Restaurant & Brewhouse® format is expected to represent the vast majority of our planned new restaurant growth for the foreseeable future. We may also open new BJ’s Restaurant & Brewery® formats or brewpub locations (“brewing restaurants”) to maintain our beer supply as we open more restaurants or if on-site brewing is the only legally permissible way to offer our proprietary craft beer in a particular state.

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

During fiscal 2017, we opened 10 new restaurants and increased our overall total restaurant operating weeks by approximately 8% during the year. During fiscal 2018, we expect to open four to six new restaurants. Based on information currently available, we expect to open two to three restaurants during the first half of fiscal 2018 and the remaining restaurants in the second half of the year. However, there are a number of risks associated with opening new restaurants and entering new markets, and it is difficult for us to precisely predict the timing of our new restaurant openings due to many factors that are outside of our control, including those identified under “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K.

We have signed leases, land purchase agreements or letters of intent for all of our potential restaurant openings for fiscal 2018. We are currently negotiating additional leases and/or real estate purchases for potential locations for fiscal 2019 and 2020. We typically enter into operating leases for our locations for periods ranging from 10 to 20 years. We obtain lease extension options in most instances. Our restaurants can either be freestanding or in-line. Our lease payment terms vary from lease to lease, but generally provide for the payment of both minimum base rent and contingent (percentage) rent based on restaurant sales. We are generally responsible for our proportionate share of common area maintenance (“CAM”), insurance, property tax and other occupancy-related expenses under our leases. We expend cash for leasehold improvements and furnishings, fixtures and equipment to build out our leased premises. We may also expend cash for permanent structural additions that we make to leased premises.

We may have some of the costs to open a restaurant reimbursed to us by our landlords in the form of tenant improvement allowance incentives pursuant to agreed-upon terms in our leases. These allowances usually take the form of up-front cash, full or partial credits against minimum or percentage rents otherwise payable by us, or a combination thereof. Generally, a landlord will charge us additional rent for any allowances provided to us. We typically negotiate tenant improvement allowances of approximately $80 to $200 per square foot; however, not every location we develop into a restaurant will have such allowances available. During fiscal 2017, we opened 10 new restaurants, of which only six restaurants received tenant improvement allowances. For these restaurants, our average tenant improvement allowance was approximately $110 per square foot. We may also purchase the land underlying certain restaurant locations if it becomes available. However, it is not our current strategy to own a large number of land parcels that underlie our restaurants. In many cases, we subsequently enter into sale-leaseback arrangements for land parcels that we purchase.

TARGETED NEW RESTAURANT ECONOMICS

Our current prototype is approximately 7,400 square feet with seating for as many as 225 customers with a targeted gross construction cost of approximately $4.0 million (before tenant improvement allowances, if any). Our construction costs for new restaurants may vary significantly depending on a number of factors including, but not limited to their size, layout (custom or prototype), type of construction labor (union or non-union), local permitting requirements, the scope of any required site work, the cost of liquor and other licenses and hook-up fees, geographical location and facility type (for example, whether the site will have the capacity to brew beer).

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