



Deitchle's Management Team Navigates the Storm

We think BJ's Restaurant's CEO Jerry Deitchle and his management team are a good counter-cyclical play on the restaurant industry and likely to outperform peers. Deitchle joined BJRI in 2005 as the Company decided to build a management team capable of expanding nationally from an initial regional chain of 36 restaurants. The addition of Deitchle and the recent departure of the firm's two founders clarifies the leadership structure and positions the firm well for strong relative growth. Today, the chain numbers 83 restaurants, with half of those in California, and the Company's disciplined growth strategy and debt free equity financing gives us confidence that their long term goal of 300 locations is very attainable in an environment where CapEx and leasing economics are likely to be significantly improved.



The management team have an excellent track record. Jerry Deitchle previously served two years as President & COO of Fired Up (Johnny Carino's), ten years at The Cheesecake Factory (President at end) and eleven years at Long John Silver's (EVP). CFO Greg Levin also joined in 2005, having served as CFO at California Pizza Kitchen, where he was employed for eight years after beginning his career in audit at Ernst & Young. The Company says its "energized local restaurant managers are our vital organs". We like the Company's focus on "casual-plus" dining and continued focus on operational excellence which incorporates a very rigorous and quantitative approach to every facet of their business and effectively targets 20% operating cash flow margins.

BJ's Restaurants has an executive compensation structure that is reasonably aligned with outside investor interests. The Company pays well on an absolute basis but weights options heavily in the mix. The Company hasn't released the 2008 proxy as of this writing, but last year CEO Deitchle's salary was \$420k with a 65% target bonus and he had a total compensation of \$1.16 million in 2007. 100% of his annual cash bonus is related to achieving an annual net income target, while individual performance factors are major weights for the other senior executives. Jerry Deitchle beneficially owns approximately 1.2% of the company's equity. Greg Levin was paid a salary of \$300k in 2007 and has a target bonus set at 45% of salary. Other key players team include Chief Development Officer Greg Lynds, who joined the company in 2003 after serving as Director of Real Estate for Darden's, and Chief of Supply Chain John Allegretto, who joined the company in 2005 after serving in a similar role at Disney.

Cash compensation of the five NEOs is high relative to their peer group at 12% of BJRI's operating income, but we feel the pay is reasonable given the team's relative performance and in the context of the growth potential of the company. Management's long-term compensation package consists solely of options which vest ratably over five years and the officers and directors of BJRI beneficially own over 24% of the Company which provides a lot of comfort in their capital allocation strategy.

There is one significant related party transaction concerning BJRI among a host of inter-connected officers and directors that we generally find positive. The Company purchases about half of its supplies (\$40 million annually), from food distributor The Jacmar Co's which also owns roughly 16% of BJRI's stock and whose President, Jim Dal Pozzo, is a member of BJRI's board of directors. We spoke with the Company about this and were assured that the prices and purchasing terms are industry standard and done at arms-length rates. The Company says shareholders are also protected from the potential of less-than-favorable purchasing terms by a competitive bidding process that occurs every three years.

We believe that this management team has executed particularly well on a clearly defined strategy in a difficult industry environment. When industry conditions improve the BJRI team demonstrates many of the sustainable growth characteristics that we think will make BJRI an outperformer relative to most Restaurant companies. *End*