

CHUY'S HOLDINGS, INC.
Form 10-Q
November 03, 2016
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended September 25, 2016

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

Commission File No. 001-35603

CHUY'S HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

DELAWARE (State of Incorporation or Organization)	20-5717694 (I.R.S. Employer Identification No.)
---	---

1623 TOOMEY ROAD AUSTIN, TEXAS (Address of Principal Executive Offices)	78704 (Zip Code)
---	---------------------

Registrant's Telephone Number, Including Area Code: (512) 473-2783

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 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 (Check One):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company

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

The number of shares of the registrant's common stock outstanding at October 28, 2016 was 16,822,284.

Table of Contents

Table of Contents

<u>Part I – Financial Information</u>	<u>3</u>
<u>Item 1. Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>3</u>
<u>Unaudited Condensed Consolidated Income Statements</u>	<u>4</u>
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>10</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>19</u>
<u>Item 4. Controls and Procedures</u>	<u>19</u>
<u>Part II – Other Information</u>	<u>20</u>
<u>Item 1. Legal Proceedings</u>	<u>20</u>
<u>Item 1A. Risk Factors</u>	<u>20</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>20</u>
<u>Item 3. Defaults Upon Senior Securities</u>	<u>20</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>20</u>
<u>Item 5. Other Information</u>	<u>20</u>
<u>Item 6. Exhibits</u>	<u>20</u>

Table of Contents

Part I—Financial Information

Item 1. Financial Statements

Chuy's Holdings, Inc.

Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

	September 25, 2016	December 27, 2015
	(Unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 13,944	\$ 8,529
Accounts receivable	773	1,118
Lease incentives receivable	3,770	2,756
Inventories	1,208	1,194
Income tax receivable	3,389	987
Prepaid expenses and other current assets	4,823	2,639
Total current assets	27,907	17,223
Property and equipment, net	159,036	136,493
Other assets and intangible assets, net	1,844	1,763
Tradename	21,900	21,900
Goodwill	24,069	24,069
Total assets	\$ 234,756	\$ 201,448
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 7,919	\$ 7,294
Accrued liabilities	16,276	15,861
Deferred lease incentives	2,201	1,853
Total current liabilities	26,396	25,008
Deferred tax liability, net	14,739	10,281
Accrued deferred rent	8,807	6,908
Deferred lease incentives, less current portion	30,944	26,194
Total liabilities	80,886	68,391
Commitments and contingencies (note 7)		
Stockholders' equity:		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 16,820,282 shares issued and outstanding at September 25, 2016 and 16,490,600 shares issued and outstanding at December 27, 2015	168	165
Preferred stock, \$0.01 par value; 15,000,000 shares authorized and no shares issued or outstanding at September 25, 2016 and December 27, 2015	—	—
Paid-in capital	96,338	90,439
Retained earnings	57,364	42,453
Total stockholders' equity	153,870	133,057
Total liabilities and stockholders' equity	\$ 234,756	\$ 201,448

See notes to the Unaudited Condensed Consolidated Financial Statements

Table of Contents

Chuy's Holdings, Inc.
 Unaudited Condensed Consolidated Income Statements
 (In thousands, except share and per share data)

	Thirteen Weeks Ended September 25, 2016		Thirty-Nine Weeks Ended September 25, 2016	
	September 27, 2015	September 27, 2015	September 25, 2016	September 27, 2015
Revenue	\$85,597	\$ 73,910	\$251,560	\$ 216,101
Costs and expenses:				
Cost of sales	22,528	19,674	64,923	57,020
Labor	28,469	23,641	82,857	69,914
Operating	12,003	10,235	34,593	29,734
Occupancy	5,695	4,802	16,637	14,149
General and administrative	4,132	4,073	13,535	12,456
Marketing	641	576	1,916	1,720
Restaurant pre-opening	1,178	1,067	4,145	2,874
Closure costs	390	—	390	—
Depreciation and amortization	3,821	3,230	11,005	9,422
Total costs and expenses	78,857	67,298	230,001	197,289
Income from operations	6,740	6,612	21,559	18,812
Interest expense, net	16	16	47	93
Income before income taxes	6,724	6,596	21,512	18,719
Income tax expense	2,125	2,527	6,601	6,042
Net income	\$4,599	\$ 4,069	\$14,911	\$ 12,677
Net income per common share:				
Basic	\$0.27	\$ 0.25	\$0.90	\$ 0.77
Diluted	\$0.27	\$ 0.24	\$0.88	\$ 0.76
Weighted-average shares outstanding:				
Basic	16,803,188	16,476,472	16,625,008	16,465,499
Diluted	16,953,096	16,760,695	16,861,667	16,726,925

See notes to the Unaudited Condensed Consolidated Financial Statements

4

Table of Contents

Chuy's Holdings, Inc.

Unaudited Condensed Consolidated Statements of Cash Flows

(In thousands)

	Thirty-Nine Weeks Ended	
	September 25, 2016	September 27, 2015
Cash flows from operating activities:		
Net income	\$14,911	\$12,677
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,005	9,422
Amortization of loan origination costs	25	34
Closure costs	269	—
Stock-based compensation	1,624	1,255
Excess tax benefit from stock-based compensation	(3,158)	(109)
Loss on disposal of property and equipment	48	90
Amortization of deferred lease incentives	(1,548)	(1,233)
Deferred income taxes	4,458	3,972
Changes in operating assets and liabilities:		
Accounts receivable	345	264
Inventories	(22)	(86)
Income tax receivable	(2,402)	(603)
Prepaid expenses and other current assets	(2,190)	(812)
Accounts payable	(1,732)	(2,427)
Accrued liabilities and deferred rent	5,427	5,118
Deferred lease incentives	5,632	6,223
Net cash provided by operating activities	32,692	33,785
Cash flows from investing activities:		
Purchase of property and equipment	(31,290)	(18,097)
Purchase of other assets	(202)	(315)
Net cash used in investing activities	(31,492)	(18,412)
Cash flows from financing activities:		
Borrowings under revolving line of credit	—	1,000
Payments under revolving line of credit	—	(9,750)
Excess tax benefit from stock-based compensation	3,158	109
Proceeds from the exercise of stock options	1,379	105
Indirect repurchase of shares for minimum tax withholdings	(322)	(54)
Net cash provided by (used in) financing activities	4,215	(8,590)
Net increase in cash and cash equivalents	5,415	6,783
Cash and cash equivalents, beginning of period	8,529	3,815
Cash and cash equivalents, end of period	\$13,944	\$10,598
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment and other assets acquired by accounts payable	\$2,357	\$2,627
Supplemental cash flow disclosures:		
Cash paid for interest	\$25	\$87
Cash paid for income taxes	\$1,384	\$2,323

See notes to the Unaudited Condensed Consolidated Financial Statements

5

Table of Contents

Chuy's Holdings, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements

(Tabular dollar amounts in thousands, except share and per share data)

1. Basis of Presentation

Chuy's Holdings, Inc. (the "Company" or "Chuy's") develops and operates Chuy's restaurants throughout the United States.

Chuy's is a fast-growing, full-service restaurant concept offering a distinct menu of authentic, freshly-prepared Mexican and Tex-Mex inspired food. As of September 25, 2016, the Company operated 77 restaurants in 15 states. In the opinion of management, the accompanying unaudited condensed consolidated financial statements and the related notes reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods presented. The unaudited condensed consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"), except that certain information and notes have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission (the "SEC"). Results for interim periods are not necessarily indicative of the results that may be expected for the full fiscal year. The unaudited condensed consolidated financial statements should be read in conjunction with consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 27, 2015. The accompanying condensed consolidated balance sheet as of December 27, 2015, has been derived from our audited consolidated financial statements.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the period. Actual results could differ from those estimates.

The Company operates on a 52- or 53- week fiscal year that ends on the last Sunday of the calendar year. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter has 14 weeks. Our 2016 and 2015 fiscal years each consist of 52 weeks.

Certain prior year amounts have been reclassified in our unaudited condensed consolidated financial statements to conform to current year presentation.

2. Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue with Contracts from Customers." ASU 2014-09 supersedes the current revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU is effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted only for interim and annual periods beginning after December 15, 2016. The adoption of this ASU is not expected to have a significant impact on the Company's consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases." This update requires a lessee to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases with a lease term of more than twelve months. Leases will continue to be classified as either financing or operating, with classification affecting the recognition, measurement and presentation of expenses and cash flows arising from a lease. This ASU is effective for interim and annual periods beginning after December 15, 2018 and requires a modified retrospective approach to adoption for lessees related to capital and operating leases existing at, or entered into after, the earliest comparative period presented in the financial statements, with certain practical expedients available. Early adoption is permitted. The Company is in the process of determining what impact the adoption of this ASU will have on its consolidated financial statements.

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." This update simplifies several aspects of the accounting for share-based payment transactions, including income tax

consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for interim and annual periods beginning after December 15, 2016, and early adoption is permitted. The Company is in the process of determining what impact the adoption of this ASU will have on its consolidated financial statements.

Table of Contents

Chuy's Holdings, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(Tabular dollar amounts in thousands, except share and per share data)

3. Closure Costs

The Company recorded closure costs of \$390,000 for the thirteen and thirty-nine weeks ended September 25, 2016 related to the closure and relocation of one restaurant. The closure costs primarily consisted of the write-off of assets and other incremental closing costs.

4. Net Income Per Share

The number of shares and net income per share data for all periods presented are based on the historical weighted-average shares of common stock outstanding.

Basic net income per share of the Company's common stock is computed by dividing net income by the weighted-average number of shares of common stock outstanding for the period.

Diluted net income per share of the Company's common stock is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential shares of common stock equivalents outstanding during the period using the treasury stock method for dilutive options and deferred shares (these deferred shares were granted under the Chuy's Holdings, Inc. 2012 Omnibus Equity Incentive Plan (the "2012 Plan"), and are referred to as "restricted stock units"). For the thirteen weeks ended September 25, 2016 and September 27, 2015 there were approximately 1,000 and 9,000 shares, respectively, of common stock equivalents that were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive. For the thirty-nine weeks ended September 25, 2016 and September 27, 2015 there were approximately 1,000 and 39,000 shares, respectively, of common stock equivalents that were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive.

The computation of basic and diluted earnings per share is as follows:

	Thirteen Weeks Ended September 25, 2016		Thirty-Nine Weeks Ended September 25, 2015	
BASIC				
Net income	\$4,599	\$ 4,069	\$ 14,911	\$ 12,677
Weighted-average common shares outstanding	16,803,188	18,476,472	16,625,008	18,465,499
Basic net income per common share	\$0.27	\$ 0.25	\$0.90	\$ 0.77
DILUTED				
Net income	\$4,599	\$ 4,069	\$ 14,911	\$ 12,677
Weighted-average common shares outstanding	16,803,188	18,476,472	16,625,008	18,465,499
Dilutive effect of stock options and restricted stock units	149,905	284,223	236,659	261,426
Weighted-average of diluted shares	16,953,093	18,760,695	16,861,667	18,726,925
Diluted net income per common share	\$0.27	\$ 0.24	\$0.88	\$ 0.76

5. Stock-Based Compensation

The Company has outstanding awards under the Chuy's Holdings, Inc. 2006 Stock Option Plan (the "2006 Plan") and the 2012 Plan. Options granted under these plans vest over five years from the date of grant and have a maximum term of 10 years. Restricted stock units granted under the 2012 Plan vest over four to five years from the date of grant. As of September 25, 2016, a total of 818,961 shares of common stock are reserved and remain available for issuance under the 2012 Plan.

Stock-based compensation cost recognized in the accompanying condensed consolidated income statements was \$565,000 and \$450,000 for the thirteen weeks ended September 25, 2016 and September 27, 2015, respectively, and \$1,624,000 and \$1,255,000 for the thirty-nine weeks ended September 25, 2016 and September 27, 2015, respectively.

Table of Contents

Chuy's Holdings, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(Tabular dollar amounts in thousands, except share and per share data)

Stock Options

A summary of stock-based compensation activity related to stock options for the thirty-nine weeks ended September 25, 2016 are as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 27, 2015	634,412	\$ 11.91		
Exercised	(293,216)	4.70		
Forfeited	(4,504)	31.62		
Outstanding at September 25, 2016	336,692	\$ 17.92	4.95	\$ 3,945
Exercisable at September 25, 2016	277,895	\$ 15.82	4.62	\$ 3,822

The aggregate intrinsic value in the table above is obtained by subtracting the exercise price from the estimated fair value of the underlying common stock as of September 25, 2016 and multiplying this result by the related number of options outstanding and exercisable at September 25, 2016. The estimated fair value of the common stock as of September 25, 2016 used in the above calculation was \$29.49 per share, the closing price of the Company's common stock on September 23, 2016, the last trading day of the third quarter. The total intrinsic value of options exercised during the thirty-nine weeks ended September 25, 2016 was \$8.7 million. The fair value of options vested during the thirty-nine weeks ended September 25, 2016 was \$454,000.

There was approximately \$458,000 of total unrecognized compensation costs related to options granted under the 2006 Plan and the 2012 Plan as of September 25, 2016. These costs will be recognized ratably over the next three years.

Restricted Stock Units

A summary of stock-based compensation activity related to restricted stock units for the thirty-nine weeks ended September 25, 2016 are as follows:

	Shares	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (Year)
Outstanding at December 27, 2015	165,111	\$ 29.72	
Granted	91,004	34.47	
Vested	(45,819)	30.90	
Forfeited	(6,141)	29.69	
Outstanding at September 25, 2016	204,155	\$ 31.58	2.78

The fair value of the restricted stock units is the quoted market value of our common stock on the date of grant. As of September 25, 2016, total unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately \$5.3 million, which is expected to be recognized ratably over the next five years.

6. Long-Term Debt

Revolving Credit Facility

On November 30, 2012, the Company entered into a \$25.0 million Revolving Credit Facility with Wells Fargo Bank, National Association. On October 30, 2015, the Company entered into an amendment to its Revolving Credit Facility

to, among other things, (1) extend the maturity date of the Revolving Credit Facility to October 30, 2020 from November 30, 2017 and (2) revise the applicable margins and leverage ratios that determine the commitment fees and interest rates payable by the Company under the Revolving Credit Facility.

Table of Contents

Chuy's Holdings, Inc.

Notes to Unaudited Condensed Consolidated Financial Statements (Continued)

(Tabular dollar amounts in thousands, except share and per share data)

Under the Company's Revolving Credit Facility, the Company may request to increase the size of the Revolving Credit Facility by up to an additional \$25.0 million, in minimum principal amounts of \$5.0 million or the remaining amount of the \$25.0 million if less than \$5.0 million (the "Incremental Revolving Loan"), which Incremental Revolving Loan will be effective after 10 days written notice to the agent. In the event that any of the lenders fund the Incremental Revolving Loan, the terms and provisions of the Incremental Revolving Loan will be the same as under the Company's Revolving Credit Facility.

Borrowings under the Revolving Credit Facility generally bear interest at a variable rate based upon the Company's election, of (i) the base rate (which is the highest of prime rate, federal funds rate plus 0.5% or one month LIBOR plus 1.0%), or (ii) LIBOR, plus, in either case, an applicable margin based on the Company's consolidated total lease adjusted leverage ratio (as defined in the Revolving Credit Facility agreement). The Revolving Credit Facility also requires payment for commitment fees that accrue on the daily unused commitment of the lender at the applicable margin, which varies based on the Company's consolidated total lease adjusted leverage ratio.

The Revolving Credit Facility also requires compliance with a fixed charge coverage ratio, a lease adjusted leverage ratio and certain non-financial covenants. The Revolving Credit Facility also places certain restrictions on the payment of dividends and distributions. Under the Revolving Credit Facility, the Company may declare and make dividend payments so long as (i) no default or event of default has occurred and is continuing or would result therefrom and (ii) immediately after giving effect to any such dividend payment, on a pro forma basis, the lease adjusted leverage ratio does not exceed 3.50 to 1.00.

The obligations under the Company's Revolving Credit Facility are secured by a first priority lien on substantially all of the Company's assets. As of September 25, 2016 the Company had no borrowings under our Revolving Credit Facility.

7. Accrued Liabilities

The major classes of accrued liabilities at September 25, 2016 and December 27, 2015 are summarized as follows:

	September 25, 2016	December 27, 2015
Accrued compensation and related benefits	\$ 7,673	\$ 8,080
Sales and use tax	2,267	2,084
Other accruals	3,324	2,778
Deferred gift card revenue	1,172	1,645
Property tax	1,840	1,274
Total accrued liabilities	\$ 16,276	\$ 15,861

8. Commitments and Contingencies

We are involved in various legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

9. Subsequent events

Subsequent to September 25, 2016, the Company opened one new restaurant for a total of 78 restaurants, in 16 states.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes. Unless otherwise specified, or the context otherwise requires, the references in this report to "our Company," "the Company," "us," "we" and "our" refer to Chuy's Holdings, Inc. together with its subsidiary. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 27, 2015 (our "Annual Report") and those set forth under "Cautionary Statements Concerning Forward-Looking Statements" in this report.

Although we believe that the expectations reflected in the forward-looking statements are reasonable based on our current knowledge of our business and operations, we cannot guarantee future results, levels of activity, performance or achievements. We assume no obligation to provide revisions to any forward-looking statements should circumstances change, except as may be required by law.

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of our Company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our Annual Report and the unaudited condensed consolidated financial statements and the accompanying notes thereto included herein.

Overview

We are a fast-growing, full-service restaurant concept offering a distinct menu of authentic, freshly-prepared Mexican and Tex-Mex inspired food. We were founded in Austin, Texas in 1982 and, as of September 25, 2016, we operated 77 Chuy's restaurants across 15 states.

We are committed to providing value to our customers through offering generous portions of made-from-scratch, flavorful Mexican and Tex-Mex inspired dishes. We also offer a full-service bar in all of our restaurants providing our customers a wide variety of beverage offerings. We believe the Chuy's culture is one of our most valuable assets, and we are committed to preserving and continually investing in our culture and our customers' restaurant experience. Our restaurants have a common décor, but we believe each location is unique in format, offering an "unchained" look and feel, as expressed by our motto "If you've seen one Chuy's, you've seen one Chuy's!" We believe our restaurants have an upbeat, funky, eclectic, somewhat irreverent atmosphere while still maintaining a family-friendly environment.

Our Growth Strategies and Outlook

Our growth is based primarily on the following strategies:

- Pursue new restaurant development in major markets;
- Backfill smaller existing markets to build brand awareness;
- Deliver consistent same store sales through providing high-quality food and service; and
- Leverage our infrastructure.

As of September 25, 2016, we opened nine new restaurants year-to-date and we also opened one additional restaurant subsequent to September 25, 2016. We expect to double our restaurant base over the next three to five years. We have an established presence in Texas, the Southeast and the Midwest, with restaurants in multiple large markets in these regions. Our growth plan over the next five years focuses on developing additional locations in our existing core markets and major markets while continuing to "backfill" our smaller existing markets in order to build our brand awareness.

Performance Indicators

We use the following performance indicators in evaluating our performance:

Number of Restaurant Openings. Number of restaurant openings reflects the number of restaurants opened during a particular fiscal period. For restaurant openings we incur pre-opening costs, which are defined below, before the restaurant opens. Typically, new restaurants open with an initial start-up period of higher than normalized sales volumes, which decrease to a steady level approximately six to twelve months after opening. However, operating costs during this initial six to twelve month period are also higher than normal, resulting in restaurant operating margins that are generally lower during the start-up period of operation and increase to a steady level approximately nine to twelve months after opening.

Comparable Restaurant Sales. We consider a restaurant to be comparable in the first full quarter following the 18th month of operations. Changes in comparable restaurant sales reflect changes in sales for the comparable group of restaurants

Table of Contents

over a specified period of time. Changes in comparable sales reflect changes in average weekly customer trends as well as changes in average check. Our comparable restaurant base consisted of 58 and 48 restaurants at September 25, 2016 and September 27, 2015, respectively.

Average Check. Average check is calculated by dividing revenue by total entrées sold for a given time period.

Average check reflects menu price increases as well as changes in menu mix. Our management team uses this indicator to analyze trends in customers' preferences, effectiveness of menu changes and price increases and per customer expenditures.

Average Weekly Customers. Average weekly customers is measured by the number of entrées sold per week. Our management team uses this metric to measure changes in customer traffic.

Average Unit Volume. Average unit volume consists of the average sales of our comparable restaurants over a certain period of time. This measure is calculated by dividing total comparable restaurant sales within a period of time by the total number of comparable restaurants within the relevant period. This indicator assists management in measuring changes in customer traffic, pricing and development of our brand.

Operating Margin. Operating margin represents income from operations as a percentage of our revenue. By monitoring and controlling our operating margins, we can gauge the overall profitability of our Company.

The following table presents operating data for the periods indicated:

	Thirteen Weeks Ended September 25, 2016		Thirty-Nine Weeks Ended September 27, 2015	
Total restaurants (at end of period)	77	65	77	65
Total comparable restaurants (at end of period)	58	48	58	48
Average comparable unit volumes (in thousands)	\$ 1,165	\$ 1,200	\$ 3,539	\$ 3,630
Change in comparable restaurant sales	0.3 %	4.2 %	1.5 %	3.1 %
Average check	\$ 14.48	\$ 14.27	\$ 14.49	\$ 14.24

Our Fiscal Year

We operate on a 52- or 53-week fiscal year that ends on the last Sunday of the calendar year. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter has 14 weeks. Our 2016 and 2015 fiscal years each consist of 52 weeks.

Key Financial Definitions

Revenue. Revenue primarily consists of food and beverage sales and also includes sales of our merchandise. Revenue is presented net of discounts associated with each sale. Revenue in a given period is directly influenced by the number of operating weeks in such period, the number of restaurants we operate and comparable restaurant sales growth.

Cost of Sales. Cost of sales consists primarily of food, beverage and merchandise related costs. The components of cost of sales are variable in nature, change with sales volume and are subject to increases or decreases based on fluctuations in commodity costs.

Labor Costs. Labor costs include restaurant management salaries, front-and back-of-house hourly wages, restaurant-level manager bonus expense and payroll taxes.

Operating Costs. Operating costs consist primarily of restaurant-related operating expenses, such as supplies, utilities, repairs and maintenance, travel, insurance, employee benefits, credit card fees, recruiting, delivery service and security. These costs generally increase with sales volume but decline as a percentage of revenue.

Occupancy Costs. Occupancy costs include rent charges, both fixed and variable, as well as common area maintenance costs, property insurance and taxes, the amortization of tenant allowances and the adjustment to straight-line rent. These costs are generally fixed but a portion may vary with an increase in sales when the lease contains percentage rent.

General and Administrative Expenses. General and administrative expenses include costs associated with corporate and administrative functions that support our operations, including senior and supervisory management and staff compensation (including stock-based compensation) and benefits, travel, legal and professional fees, information systems, corporate office rent and other related corporate costs.

Marketing. Marketing costs include costs associated with our local restaurant marketing programs, community service and sponsorship activities, our menus and other promotional activities.

Restaurant Pre-opening Costs. Restaurant pre-opening costs consist of costs incurred before opening a restaurant, including manager salaries, relocation costs, supplies, recruiting expenses, initial new market public relations costs, pre-opening activities,

Table of Contents

employee payroll and related training costs for new employees. Restaurant pre-opening costs also include rent recorded during the period between date of possession and the restaurant opening date.

Closure costs. Closure costs consist of any costs associated with the closure of a restaurant.

Depreciation and Amortization. Depreciation and amortization principally include depreciation on fixed assets, including equipment and leasehold improvements, and amortization of certain intangible assets for our restaurants.

Interest Expense. Interest expense consists primarily of interest on our outstanding indebtedness and the amortization of our debt issuance costs reduced by capitalized interest.

Results of Operations

Potential Fluctuations in Quarterly Results and Seasonality

Our quarterly operating results may fluctuate significantly as a result of a variety of factors, including the timing of new restaurant openings and related expenses, profitability of new restaurants, weather, increases or decreases in comparable restaurant sales, general economic conditions, consumer confidence in the economy, changes in consumer preferences, competitive factors, changes in food costs, changes in labor costs and changes in gas prices. In the past, we have experienced significant variability in restaurant pre-opening costs from quarter to quarter primarily due to the timing of restaurant openings. We typically incur restaurant pre-opening costs in the five months preceding a new restaurant opening. In addition, our experience to date has been that labor and direct operating costs associated with a newly opened restaurant during the first several months of operation are often materially greater than what will be expected after that time, both in aggregate dollars and as a percentage of restaurant sales. Accordingly, the number and timing of new restaurant openings in any quarter has had, and is expected to continue to have, a significant impact on quarterly restaurant pre-opening costs, labor and direct operating costs.

Our business also is subject to fluctuations due to seasonality and adverse weather. The spring and summer months have traditionally had higher sales volume than other periods of the year. Holidays, severe winter weather, hurricanes, thunderstorms and similar conditions may impact restaurant unit volumes in some of the markets where we operate and may have a greater impact should they occur during our higher volume months. 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.

Thirteen Weeks Ended September 25, 2016 Compared to Thirteen Weeks Ended September 27, 2015

The following table presents, for the periods indicated, the condensed consolidated statement of operations (in thousands):

	Thirteen Weeks Ended						
	September	% of	September	% of	\$ Change	%	
	25,	Revenue	27, 2015	Revenue		Change	
	2016		2015				
Revenue	\$85,597	100.0 %	\$ 73,910	100.0 %	\$ 11,687	15.8 %	
Costs and expenses:							
Cost of sales	22,528	26.3 %	19,674	26.6 %	2,854	14.5 %	
Labor	28,469	33.3 %	23,641	32.0 %	4,828	20.4 %	
Operating	12,003	14.0 %	10,235	13.8 %	1,768	17.3 %	
Occupancy	5,695	6.7 %	4,802	6.5 %	893	18.6 %	
General and administrative	4,132	4.8 %	4,073	5.5 %	59	1.4 %	
Marketing	641	0.7 %	576	0.8 %	65	11.3 %	
Restaurant pre-opening	1,178	1.4 %	1,067	1.5 %	111	10.4 %	
Closure costs	390	0.4 %	—	— %	390	*	
Depreciation and amortization	3,821	4.5 %	3,230	4.4 %	591	18.3 %	
Total costs and expenses	78,857	92.1 %	67,298	91.1 %	11,559	17.2 %	
Income from operations	6,740	7.9 %	6,612	8.9 %	128	1.9 %	
Interest expense, net	16	— %	16	— %	—	— %	
Income before income taxes	6,724	7.9 %	6,596	8.9 %	128	1.9 %	
Income tax expense	2,125	2.5 %	2,527	3.4 %	(402)	(15.9)%	

Edgar Filing: CHUY'S HOLDINGS, INC. - Form 10-Q

Net income	\$4,599	5.4	%	\$ 4,069	5.5	%	\$530	13.0	%
------------	---------	-----	---	----------	-----	---	-------	------	---

*Not meaningful.

Revenue. Revenue increased \$11.7 million, or 15.8%, to \$85.6 million for the thirteen weeks ended September 25, 2016 from \$73.9 million for the comparable period in 2015. This increase was primarily driven by \$13.0 million in incremental revenue from

12

Table of Contents

an additional 166 operating weeks provided by 15 new restaurants opened during and subsequent to the thirteen weeks ended September 27, 2015 and increased revenue at our comparable restaurants. These increases were offset by a decrease in revenue related to our non-comparable restaurants that are not included in the incremental revenue discussed above and the loss of seven operating weeks due to the closing of the Charlotte, NC location during the third quarter of 2016. Revenue for our non-comparable restaurants is historically lower as the stores transition out of the 'honeymoon' period that follows a restaurant's initial opening.

Comparable restaurant sales increased 0.3% for the thirteen weeks ended September 25, 2016 compared to the thirteen weeks ended September 27, 2015. The increase in comparable restaurant sales was driven primarily by a 1.1% increase in average check partially offset by a 0.8% decrease in average weekly customers. Our revenue mix attributed to bar sales was 18.4% during the thirteen weeks ended September 25, 2016 compared to 18.3% during the comparable period in 2015.

Cost of Sales. Cost of sales as a percentage of revenue decreased to 26.3% during the thirteen weeks ended September 25, 2016 from 26.6% during the comparable period in 2015. This decrease is primarily the result of decreased grocery costs.

Labor Costs. Labor costs as a percentage of revenue increased to 33.3% during the thirteen weeks ended September 25, 2016 from 32.0% during the comparable period in 2015, primarily due to new store labor inefficiencies as we opened three new restaurants during the third quarter of 2016 compared to two new store openings in the third quarter of 2015 and hourly labor rate inflation of over 4.0%.

Operating Costs. Operating costs as a percentage of revenue increased to 14.0% during the thirteen weeks ended September 25, 2016 from 13.8% during the comparable period in 2015, primarily due to increases in general repairs and maintenance costs of approximately 10 basis points and other miscellaneous operational cost increases.

Occupancy Costs. Occupancy costs as a percentage of revenue increased to 6.7% during the thirteen weeks ended September 25, 2016 from 6.5% during the comparable period in 2015, primarily as a result of higher rental expense and property taxes at certain newly opened restaurants as we continue our expansion into larger markets.

General and Administrative Expenses. General and administrative expenses increased \$0.1 million, or 1.4%, to \$4.1 million for the thirteen weeks ended September 25, 2016 compared to the comparable period in 2015. This increase was primarily driven by an increase in management salaries and equity compensation due to additional headcount to support our growth as well as increased payroll taxes due to an increase in employee stock option exercises offset by a decrease in performance based bonuses.

Restaurant Pre-opening Costs. Restaurant pre-opening costs increased \$0.1 million to \$1.2 million during the thirteen weeks ended September 25, 2016 compared to \$1.1 million during the same period in 2015. This increase is primarily the result of differences in the timing of our development schedule. During the third quarter of 2016, we incurred pre-opening costs for three new restaurants compared to two new restaurants during the comparable period in 2015.

Closure costs. During the thirteen weeks ended September 25, 2016 we recorded \$0.4 million of closure costs related to one restaurant that was closed and relocated. Closure costs are currently expected to continue through the first quarter of 2017.

Depreciation and Amortization. Depreciation and amortization costs increased \$0.6 million to \$3.8 million during the thirteen weeks ended September 25, 2016 from \$3.2 million during the comparable period in 2015, primarily as the result of an increase in equipment and leasehold improvement costs associated with our new restaurants.

Income Tax Expense. For the thirteen weeks ended September 25, 2016 our effective tax rate decreased to approximately 31.6% from approximately 38.3% during the comparable period in 2015. This decrease is primarily due to the Company's federal statutory tax rate increasing from 34% to 35% during the comparable period in 2015. As a result of the increase in the federal statutory tax rate we recorded a discrete tax item of approximately \$0.4 million to increase our deferred tax liabilities during the thirteen weeks ended September 27, 2015. The effective tax rate for 2015, excluding the discrete tax item, was estimated to be between 29% and 31%. The effective tax rates differ from the statutory rates primarily due to normal recurring tax credits attributable to employment taxes paid on employee tips and the above discrete item.

Net Income. As a result of the foregoing, net income increased 13.0% to \$4.6 million during the thirteen weeks ended September 25, 2016 from \$4.1 million during the comparable period in 2015.

Table of Contents

Thirty-Nine Weeks Ended September 25, 2016 Compared to Thirty-Nine Weeks Ended September 27, 2015
The following table presents, for the periods indicated, the condensed consolidated statement of operations (in thousands):

	Thirty-Nine Weeks Ended		September 27, 2015		September 25, 2016			
	September 25, 2016	% of Revenue	September 27, 2015	% of Revenue	\$ Change	% Change		
Revenue	\$251,560	100.0 %	\$216,101	100.0 %	\$35,459	16.4 %		
Costs and expenses:								
Cost of sales	64,923	25.8 %	57,020	26.4 %	7,903	13.9 %		
Labor	82,857	32.9 %	69,914	32.4 %	12,943	18.5 %		
Operating	34,593	13.7 %	29,734	13.8 %	4,859	16.3 %		
Occupancy	16,637	6.6 %	14,149	6.5 %	2,488	17.6 %		
General and administrative	13,535	5.4 %	12,456	5.8 %	1,079	8.7 %		
Marketing	1,916	0.8 %	1,720	0.8 %	196	11.4 %		
Restaurant pre-opening	4,145	1.6 %	2,874	1.3 %	1,271	44.2 %		
Closure costs	390	0.2 %	—	—	390	*		
Depreciation and amortization	11,005	4.4 %	9,422	4.3 %	1,583	16.8 %		
Total costs and expenses	230,001	91.4 %	197,289	91.3 %	32,712	16.6 %		
Income from operations	21,559	8.6 %	18,812	8.7 %	2,747	14.6 %		
Interest expense	47	—	93	—	(46)	(49.5)%		
Income before income taxes	21,512	8.6 %	18,719	8.7 %	2,793	14.9 %		
Income tax expense	6,601	2.7 %	6,042	2.8 %	559	9.3 %		
Net income	\$14,911	5.9 %	\$12,677	5.9 %	\$2,234	17.6 %		

*Not meaningful.

Revenue. Revenue increased \$35.5 million, or 16.4%, to \$251.6 million for the thirty-nine weeks ended September 25, 2016 from \$216.1 million for the comparable period in 2015. This increase was primarily driven by \$36.0 million in incremental revenue from an additional 434 operating weeks provided by 19 new restaurants opened during and subsequent to the thirty-nine weeks ended September 27, 2015 and increased revenue at our comparable restaurants. These increases were partially offset by a decrease in revenue related to our non-comparable restaurants that are not included in the incremental revenue discussed above and the loss of seven operating weeks due to the closing of the Charlotte, NC location during the third quarter of 2016. Revenue for our non-comparable restaurants is historically lower as the stores transition out of the 'honeymoon' period that follows a restaurant's initial opening.

Comparable restaurant sales increased 1.5% for the thirty-nine weeks ended September 25, 2016 compared to the thirty-nine weeks ended September 27, 2015. The increase in comparable restaurant sales was primarily driven by a 1.5% increase in average check and flat average weekly customers. Our revenue mix attributed to bar sales was 18.5% during both thirty-nine weeks ended September 25, 2016 and September 27, 2015.

Cost of Sales. Cost of sales as a percentage of revenue decreased to 25.8% during the thirty-nine weeks ended September 25, 2016 from 26.4% during the comparable period in 2015. This decrease is primarily the result of decreases in grocery and chicken costs partially offset by increased beef costs.

Labor Costs. Labor costs as a percentage of revenue increased to 32.9% during the thirty-nine weeks ended September 25, 2016 from 32.4% during the comparable period in 2015, primarily due to new store labor inefficiencies as we opened nine new restaurants during the thirty-nine weeks ended September 25, 2016 compared to six new store openings during the comparable period in 2015 and hourly labor rate inflation of approximately 4.0%.

Operating Costs. Operating costs as a percentage of revenue decreased to 13.7% during the thirty-nine weeks ended September 25, 2016 from 13.8% during the comparable period in 2015, primarily due to decreases in utility and insurance costs of approximately 20 basis points offset by increases in general repairs and maintenance costs of approximately 10 basis points.

Occupancy Costs. Occupancy costs as a percentage of revenue increased to 6.6% during the thirty-nine weeks ended September 25, 2016 from 6.5% during the comparable period in 2015, primarily as a result of higher rental

expense at certain newly opened restaurants as we continue our expansion into larger markets.

General and Administrative Expenses. General and administrative expenses increased \$1.1 million, or 8.7%, to \$13.5 million for the thirty-nine weeks ended September 25, 2016 from \$12.5 million during the comparable period in 2015. This increase was primarily driven by an increase in management salaries and equity compensation due to additional headcount to support our growth

Table of Contents

as well as increased payroll taxes due to an increase in employee stock option exercises offset by a decrease in performance based bonuses.

Restaurant Pre-opening Costs. Restaurant pre-opening costs increased \$1.3 million to \$4.1 million during the thirty-nine weeks ended September 25, 2016 compared to \$2.9 million during the same period in 2015. This increase is primarily the result of differences in the timing of our development schedule. During the thirty-nine weeks ended September 25, 2016, we incurred pre-opening costs for nine new restaurant openings compared to six new restaurants during the comparable period in 2015.

Closure costs. During the thirty-nine weeks ended September 25, 2016 we recorded \$0.4 million of closure costs related to one restaurant that was closed and relocated. Closure costs are currently expected to continue through the first quarter of 2017.

Depreciation and Amortization. Depreciation and amortization costs increased \$1.6 million to \$11.0 million during the thirty-nine weeks ended September 25, 2016 from \$9.4 million during the comparable period in 2015, primarily as the result of an increase in equipment and leasehold improvement costs associated with our new restaurants.

Income Tax Expense. For the thirty-nine weeks ended September 25, 2016 our effective tax rate decreased to 30.7% from 32.3% during the comparable period in 2015. This decrease is primarily due to the Company's federal statutory tax rate increasing from 34% to 35% during the comparable period in 2015. As a result of the increase in the federal statutory tax rate we recorded a discrete tax item of approximately \$0.4 million to increase our deferred tax liabilities during the thirteen weeks ended September 27, 2015. The effective tax rate for 2015, excluding the discrete tax item, was estimated to be between 29% and 31%. The effective tax rates differ from the statutory rates primarily due to normal recurring tax credits attributable to employment taxes paid on employee tips and the above discrete item.

Net Income. As a result of the foregoing, net income increased 17.6% to \$14.9 million during the thirty-nine weeks ended September 25, 2016 from \$12.7 million during the comparable period in 2015.

Liquidity

Our principal sources of cash are net cash provided by operating activities, which includes tenant improvement allowances from our landlords, and borrowings under our \$25 million Revolving Credit Facility. Our need for capital resources is driven by our restaurant expansion plans, ongoing maintenance of our restaurants, investment in our corporate and information technology infrastructure and obligations under our operating leases. Based on our current growth plans, we believe our expected cash flows from operations, expected tenant improvement allowances and available borrowings under our Revolving Credit Facility will be sufficient to finance our planned capital expenditures and other operating activities for at least the next twelve months.

Consistent with many other restaurant and retail chain store operations, we use operating lease arrangements for our restaurants. We believe that these operating lease arrangements provide appropriate leverage of our capital structure in a financially efficient manner. We have entered into operating leases with certain related parties with respect to six of our restaurants and our corporate headquarters.

Our liquidity may be adversely affected by a number of factors, including a decrease in customer traffic or average check per customer due to changes in economic conditions.

Cash Flows for Thirty-Nine Weeks Ended September 25, 2016 and September 27, 2015

The following table summarizes the statement of cash flows for the thirty-nine weeks ended September 25, 2016 and September 27, 2015 (in thousands):

	Thirty-Nine Weeks Ended	
	September 25, 2016	September 27, 2015
Net cash provided by operating activities	\$32,692	\$33,785
Net cash used in investing activities	(31,492)	(18,412)
Net cash provided by (used in) financing activities	4,215	(8,590)
Net increase in cash and cash equivalents	5,415	6,783
Cash and cash equivalents at beginning of year	8,529	3,815
Cash and cash equivalents at end of period	\$13,944	\$10,598

Operating Activities. Net cash provided by operating activities decreased \$1.1 million to \$32.7 million for the thirty-nine weeks ended September 25, 2016 from \$33.8 million during the comparable period in 2015. Our business is almost exclusively a cash business. Almost all of our receipts come in the form of cash and cash equivalents and a large majority of our expenditures are paid within a 30 day period. The decrease in net cash provided by operating activities was primarily due to net decreases in operating assets and liabilities, or working capital, of \$2.6 million and other non-cash reconciling items of \$0.7 million partially

Table of Contents

offset by an increase in net income of \$2.2 million. The decrease in working capital of \$2.6 million was primarily due to changes in income tax receivables, prepaid expenses and other current assets and the receipt of deferred lease incentives partially offset by decreases in accounts payable. The decrease in non-cash items of \$0.7 million was primarily due to deferred income taxes and excess tax benefits from stock-based compensation partially offset by depreciation and amortization.

Investing Activities. Net cash used in investing activities increased \$13.1 million to \$31.5 million for the thirty-nine weeks ended September 25, 2016 from \$18.4 million during the comparable period in 2015. The increase was primarily due to the timing of our construction schedule and the related construction payments associated with our nine new restaurants that opened during the thirty-nine weeks ended September 25, 2016, as well as expenditures related to future restaurant openings, maintaining our existing restaurants and other projects.

Financing Activities. Net cash provided by financing activities was \$4.2 million for the thirty-nine weeks ended September 25, 2016 compared to \$8.6 million used in the comparable period in 2015. During the thirty-nine weeks ended September 25, 2016 we received an excess tax benefit from stock-based compensation and proceeds from the exercise of stock options of \$4.5 million partially offset by \$0.3 million related to the indirect repurchase of shares for minimum tax withholdings. During the thirty-nine weeks ended September 27, 2015 we had net payments of \$8.8 million on our Revolving Credit Facility offset by a net \$0.2 million cash inflow related to our equity plan.

As of September 25, 2016, we lease six of our restaurant locations and our corporate office from entities owned by our founders. We had no other financing transactions, arrangements or other relationships with any unconsolidated affiliates or related parties. Additionally, we had no financing arrangements involving synthetic leases or trading activities involving commodity contracts.

Capital Resources

Long-Term Capital Requirements

Our capital requirements are primarily dependent upon the pace of our growth plan and resulting new restaurants. Our growth plan is dependent upon many factors, including economic conditions, real estate markets, restaurant locations and the nature of our lease agreements. Our capital expenditure outlays are also dependent on maintenance and remodel costs in our existing restaurants as well as information technology and other general corporate capital expenditures.

The capital resources required for a new restaurant depend on whether the restaurant is a ground-up construction or a conversion. We estimate that each ground-up restaurant will require a total cash investment of \$1.8 million to \$2.4 million (net of estimated tenant incentives of between zero and \$1.0 million). We estimate that each conversion will require a total cash investment of \$2.0 million to \$2.2 million. In addition to the cost of the conversion or ground-up buildout, we expect to spend approximately \$400,000 to \$450,000 per restaurant for restaurant pre-opening costs. We currently target a cash-on-cash return beginning in the third operating year of 30.0%, and a sales to investment ratio of 1.9:1 for our new restaurants.

For 2016, we currently estimate capital expenditure outlays will range between \$33.0 million and \$35.0 million, net of agreed upon tenant improvement allowances and excluding approximately \$5.0 million to \$5.9 million of restaurant pre-opening costs for new restaurants that are not capitalized. We spent \$4.1 million on pre-opening costs during the thirty-nine weeks ended September 25, 2016. These capital expenditure estimates are based on average new restaurant capital expenditures of \$2.3 million (net of estimated tenant improvement allowances) for the opening of 12 new restaurants as well as \$5.0 million to maintain and remodel our existing restaurants and for general corporate purposes.

Based on our growth plans, we believe our combined expected cash flows from operations, available borrowings under our Revolving Credit Facility and expected tenant improvement allowances will be sufficient to finance our planned capital expenditures and other operating activities in fiscal 2016.

Short-Term Capital Requirements

Our operations have not required significant working capital and, like many restaurant companies, we generally operate with negative working capital. Restaurant sales are primarily paid for in cash or by credit card, and restaurant operations do not require significant inventories or receivables. In addition, we receive trade credit for the purchase of food, beverages and supplies, therefore reducing the need for incremental working capital to support growth. We had a

net working capital surplus of \$1.5 million at September 25, 2016 compared to a deficit of \$7.8 million at December 27, 2015.

Revolving Credit Facility

On November 30, 2012, we entered into our \$25.0 million Revolving Credit Facility with Wells Fargo Bank, National Association. On October 30, 2015, we entered into an amendment to our Revolving Credit Facility to, among other things, (1) extend the maturity date of the Revolving Credit Facility to October 30, 2020 from November 30, 2017 and (2) revise the applicable margins and leverage ratios that determine the commitment fees and interest rates payable by the Company under the Revolving Credit Facility. As of September 25, 2016 we had no outstanding indebtedness under our Revolving Credit Facility.

Table of Contents

Under our Revolving Credit Facility, we may request to increase the size of our Revolving Credit Facility by up to \$25.0 million, in minimum principal amounts of \$5.0 million or the remaining amount of the \$25.0 million if less than \$5.0 million (the "Incremental Revolving Loan"), the Incremental Revolving Loan will be effective after 10 days written notice to the agent. In the event that any of the lenders fund the Incremental Revolving Loan, the terms and provisions of the Incremental Revolving Loan will be the same as under our Revolving Credit Facility.

Borrowings under the Revolving Credit Facility generally bear interest at a variable rate based upon our election, of (i) the base rate (which is the highest of prime rate, federal funds rate plus 0.5% or one month LIBOR plus 1.0%), or (ii) LIBOR, plus, in either case, an applicable margin based on our consolidated total lease adjusted leverage ratio (as defined in the Revolving Credit Facility agreement). Our Revolving Credit Facility also requires payment for commitment fees that accrue on the daily unused commitment of the lender at the applicable margin, which varies based on our consolidated total lease adjusted leverage ratio. In addition, the Revolving Credit Facility requires compliance with a fixed charge coverage ratio, a lease adjusted leverage ratio and certain non-financial covenants as well as places certain restrictions on the payment of dividends and distributions. Under the Revolving Credit Facility, Chuy's may declare and make dividend payments so long as (i) no default or event of default has occurred and is continuing or would result therefrom and (ii) immediately after giving effect to any such dividend payment, on a pro forma basis, the lease adjusted leverage ratio does not exceed 3.50 to 1.00.

The obligations under the Company's long-term debt are secured by a first priority lien on substantially all of the Company's assets.

Contractual Obligations

There have been no material changes to our contractual obligations from what was previously disclosed in our Annual Report filed with the SEC.

Off-Balance Sheet Arrangements

As of September 25, 2016, we are not involved in any variable interest entities transactions and do not otherwise have any off-balance sheet arrangements.

Significant Accounting Policies

There have been no material changes to the significant accounting policies from what was previously disclosed in our Annual Report filed with the SEC.

Recent Accounting Pronouncements

For information regarding new accounting pronouncements, see Note 2, Recent Accounting Pronouncements in the notes to our unaudited condensed consolidated financial statements.

Cautionary Statement Concerning Forward-Looking Statements

Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

- the success of our existing and new restaurants;
- our ability to identify appropriate sites and develop and expand our operations;
- changes in economic conditions;
- damage to our reputation or lack of acceptance of our brand in existing or new markets;
- our expansion into markets that we are unfamiliar with;
- economic and other trends and developments, including adverse weather conditions, in the local or regional areas in which our restaurants are located and specifically in Texas where a large percentage of our restaurants are located;
- the impact of negative economic factors, including the availability of credit, on our landlords and surrounding tenants;
- changes in food availability and costs;
 - labor shortages and increases in our labor costs, including as a result of changes in government regulation, such as the adoption of the new federal health care legislation;
- food safety and food borne illness concerns;
- increased competition in the restaurant industry and the segments in which we compete;

Table of Contents

the impact of legislation and regulations regarding nutritional information, and new information or attitudes regarding diet and health or adverse opinions about the health of consuming our menu offerings;

the impact of federal, state and local beer, liquor and food service regulations;

the impact of litigation;

the success of our marketing programs;

the impact of new restaurant openings, including the effect on our existing restaurants when opening new restaurants in the same markets;

the loss of key members of our management team;

strain on our infrastructure and resources caused by our growth;

the inadequacy of our insurance coverage and fluctuating insurance requirements and costs;

the impact of our indebtedness on our ability to invest in the ongoing needs of our business;

our ability to obtain debt or other financing on favorable terms or at all;

the impact of a potential requirement to record asset impairment charges in the future;

the impact of security breaches of confidential customer information in connection with our electronic processing of credit and debit card transactions;

inadequate protection of our intellectual property;

the failure of our information technology system or the breach of our network security;

a major natural or man-made disaster;

our increased costs and obligations as a result of being a public company;

the impact of electing to take advantage of certain exemptions applicable to emerging growth companies;

the failure of our internal control over financial reporting;

the impact of federal, state and local tax laws;

volatility in the price of our common stock;

the impact of future sales of our common stock and the exercise of stock options and any additional capital raised by us through the sale of our common stock;

the impact of a downgrade of our shares by securities analysts or industry analysts, the publication of negative research or reports, or lack of publication of reports about our business;

the effect of anti-takeover provisions in our charter documents and under Delaware law;

the effect of our decision to not pay dividends for the foreseeable future;

the effect of changes in accounting principles applicable to us;

our ability to raise capital in the future; and

the conflicts of interest that may arise with some of our directors.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report and in our Annual Report. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Any forward-looking statements you read in this report reflect our views as of the date of this report with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We assume no obligation to provide revisions to any forward-looking statements should circumstances change, except as may be required by law.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our quantitative and qualitative disclosures about market risk from what was previously disclosed in our Annual Report filed with the SEC.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) were effective as of the end of the period covered by this report.

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Changes in Internal Control over Financial Reporting

There have been no changes 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) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Part II—Other Information

Item 1. Legal Proceedings

Occasionally, we are a party to various legal actions arising in the ordinary course of our business including claims resulting from “slip and fall” accidents, employment related claims and claims from customers or employees alleging illness, injury or other food quality, health or operational concerns. None of these types of litigation, most of which are covered by insurance, has had a material effect on us in the past. As of the date of this report, we are not a party to any material pending legal proceedings and are not aware of any claims that could have a materially adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in our most recent Annual Report filed with the Securities and Exchange Commission.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The table below provides information with respect to our purchase of shares of our common stock during the three months ended September 25, 2016:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share
June 27, 2016 through July 24, 2016	—	\$ —
July 25, 2016 through Aug 21, 2016	320	33.36
Aug 22, 2016 through Sept 25, 2016	—	—
Total	320	\$ —

(1) To satisfy tax withholding obligations associated with the vesting of restricted stock units during the third quarter of 2016, we withheld a total of 320 shares that are included in the total number of shares purchased column above.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

See Exhibit Index following the signature page of this report.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 3, 2016

CHUY'S HOLDINGS, INC.

By: /s/ Steven J. Hislop

Name: Steven J. Hislop

Title: President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jon W. Howie

Name: Jon W. Howie

Title: Vice President and Chief Financial Officer
(Principal Financial Officer)

Table of Contents

Exhibit Index

Exhibit No. Description of Exhibit

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document