
**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 March 31, 2019

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 every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

| | | | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|-------------------------|--------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> | Emerging growth company | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> | | |

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 Exchange Act). Yes No

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

| Title of each class | Trading Symbol | Name of each exchange on which registered |
|--|----------------|---|
| Common Stock, par value \$0.01 per share | CHUY | Nasdaq Stock Market LLC |

The number of shares of the registrant's common stock outstanding at April 26, 2019 was 16,835,301.

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Part I—Financial Information

Item 1. Financial Statements

Chuy's Holdings, Inc.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

| | March 31, 2019 | December 30, 2018 |
|--|----------------|-------------------|
| | (Unaudited) | |
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,345 | \$ 8,199 |
| Accounts receivable | 1,457 | 2,054 |
| Lease incentives receivable | 1,282 | 1,597 |
| Income tax receivable | 215 | 603 |
| Inventories | 1,581 | 1,541 |
| Prepaid expenses and other current assets | 5,590 | 3,736 |
| Total current assets | 17,470 | 17,730 |
| Property and equipment, net | 211,825 | 210,960 |
| Operating lease assets | 167,088 | — |
| Other assets and intangible assets, net | 341 | 2,425 |
| Tradename | 21,900 | 21,900 |
| Goodwill | 24,069 | 24,069 |
| Total assets | \$ 442,693 | \$ 277,084 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 4,034 | \$ 6,463 |
| Accrued liabilities | 19,164 | 17,221 |
| Operating lease liabilities | 9,106 | — |
| Deferred lease incentives | — | 2,959 |
| Total current liabilities | 32,304 | 26,643 |
| Deferred tax liability, net | 2,221 | 2,601 |
| Operating lease liabilities, less current portion | 213,245 | — |
| Accrued deferred rent | — | 14,516 |
| Deferred lease incentives, less current portion | — | 39,473 |
| Total liabilities | 247,770 | 83,233 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value; 60,000,000 shares authorized; 16,860,639 shares issued and outstanding at March 31, 2019 and 16,856,373 shares issued and outstanding at December 30, 2018 | 169 | 169 |
| Preferred stock, \$0.01 par value; 15,000,000 shares authorized and no shares issued or outstanding at March 31, 2019 and December 30, 2018 | — | — |
| Paid-in capital | 97,694 | 99,490 |
| Retained earnings | 97,060 | 94,192 |
| Total stockholders' equity | 194,923 | 193,851 |
| Total liabilities and stockholders' equity | \$ 442,693 | \$ 277,084 |

See notes to the Unaudited Condensed Consolidated Financial Statements

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

| | Thirteen Weeks Ended | |
|--------------------------------------|----------------------|---------------|
| | March 31, 2019 | April 1, 2018 |
| Revenue | \$ 102,111 | \$ 93,850 |
| Costs and expenses: | | |
| Cost of sales | 25,715 | 23,573 |
| Labor | 36,699 | 33,468 |
| Operating | 14,559 | 13,352 |
| Occupancy | 7,982 | 7,097 |
| General and administrative | 6,167 | 5,471 |
| Marketing | 1,451 | 1,080 |
| Restaurant pre-opening | 718 | 1,421 |
| Closure costs | 372 | — |
| Depreciation and amortization | 5,077 | 4,713 |
| Total costs and expenses | 98,740 | 90,175 |
| Income from operations | 3,371 | 3,675 |
| Interest expense, net | 39 | 16 |
| Income before income taxes | 3,332 | 3,659 |
| Income tax expense | 115 | 476 |
| Net income | \$ 3,217 | \$ 3,183 |
| Net income per common share: | | |
| Basic | \$ 0.19 | \$ 0.19 |
| Diluted | \$ 0.19 | \$ 0.19 |
| Weighted-average shares outstanding: | | |
| Basic | 16,870,154 | 16,936,824 |
| Diluted | 16,955,324 | 17,069,140 |

See notes to the Unaudited Condensed Consolidated Financial Statements

Chuy's Holdings, Inc.
Unaudited Consolidated Statements of Stockholders' Equity
(In thousands, except share and per share data)

| | Common Stock | | Paid-in Capital | Retained Earnings | Total |
|--|--------------|--------|-----------------|-------------------|------------|
| | Shares | Amount | | | |
| Balance, December 30, 2018 | 16,856,373 | 169 | \$ 99,490 | \$ 94,192 | \$ 193,851 |
| Adoption of ASU 2016-02 Leases (Topic 842) | — | — | — | (349) | (349) |
| Stock-based compensation | — | — | 798 | — | 798 |
| Proceeds from exercise of stock options | 4,687 | — | 34 | — | 34 |
| Settlement of restricted stock units | 115,688 | 1 | — | — | 1 |
| Repurchase of shares of common stock | (80,309) | (1) | (1,817) | — | (1,818) |
| Indirect repurchase of shares for minimum tax withholdings | (35,800) | — | (811) | — | (811) |
| Net income | — | — | — | 3,217 | 3,217 |
| Balance, March 31, 2019 | 16,860,639 | 169 | \$ 97,694 | \$ 97,060 | \$ 194,923 |
| Balance, December 31, 2017 | 16,923,741 | 169 | 100,140 | 88,653 | 188,962 |
| Stock-based compensation | — | — | 788 | — | 788 |
| Proceeds from exercise of stock options | 3,587 | — | 35 | — | 35 |
| Settlement of restricted stock units | 89,643 | 1 | (1) | — | — |
| Repurchase of shares of common stock | (64,757) | (1) | (1,618) | — | (1,619) |
| Indirect repurchase of shares for minimum tax withholdings | (27,115) | — | (739) | — | (739) |
| Net income | — | — | — | 3,183 | 3,183 |
| Balance, April 1, 2018 | 16,925,099 | 169 | \$ 98,605 | \$ 91,836 | \$ 190,610 |

See notes to the Unaudited Condensed Consolidated Financial Statements

Chuy's Holdings, Inc.
Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

| | Thirteen Weeks Ended | |
|--|----------------------|-----------------|
| | March 31, 2019 | April 1, 2018 |
| Cash flows from operating activities: | | |
| Net income | \$ 3,217 | \$ 3,183 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 5,077 | 4,713 |
| Amortization of operating lease assets | 3,228 | — |
| Amortization of loan origination costs | 8 | 8 |
| Stock-based compensation | 750 | 736 |
| Loss on disposal of property and equipment | 181 | — |
| Amortization of deferred lease incentives | — | (705) |
| Deferred income taxes | (274) | 255 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 597 | 1,620 |
| Lease incentive receivable | 315 | 3,160 |
| Income tax receivable | 388 | 170 |
| Inventories | (40) | 170 |
| Prepaid expenses and other current assets | (1,853) | (345) |
| Accounts payable | (2,603) | (1,901) |
| Accrued liabilities | 1,943 | (1,335) |
| Operating lease liabilities | (3,275) | — |
| Accrued deferred rent | — | 883 |
| Deferred lease incentives | — | 1,350 |
| Net cash provided by operating activities | <u>7,659</u> | <u>11,962</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (5,866) | (9,912) |
| Purchase of other assets | (53) | (77) |
| Net cash used in investing activities | <u>(5,919)</u> | <u>(9,989)</u> |
| Cash flows from financing activities: | | |
| Borrowings under revolving line of credit | 5,000 | — |
| Payments under revolving line of credit | (5,000) | — |
| Repurchase of shares of common stock | (1,817) | (1,618) |
| Proceeds from the exercise of stock options | 34 | 35 |
| Indirect repurchase of shares for minimum tax withholdings | (811) | (739) |
| Net cash used in financing activities | <u>(2,594)</u> | <u>(2,322)</u> |
| Net decrease in cash and cash equivalents | (854) | (349) |
| Cash and cash equivalents, beginning of period | 8,199 | 8,785 |
| Cash and cash equivalents, end of period | <u>\$ 7,345</u> | <u>\$ 8,436</u> |
| Supplemental disclosure of non-cash investing and financing activities: | | |
| Property and equipment and other assets acquired by accounts payable | <u>\$ 174</u> | <u>\$ 2,091</u> |
| Supplemental cash flow disclosures: | | |
| Cash paid for interest | <u>\$ 17</u> | <u>\$ 8</u> |
| Cash paid for income taxes | <u>\$ —</u> | <u>\$ 12</u> |

See notes to the Unaudited Condensed Consolidated Financial Statements

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 growing, full-service restaurant concept offering a distinct menu of authentic, freshly-prepared Mexican and Tex-Mex inspired food. As of March 31, 2019, the Company operated 99 restaurants in 19 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 30, 2018. The accompanying condensed consolidated balance sheet as of December 30, 2018, 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.

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

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 2019 and 2018 fiscal years both consist of 52 weeks.

Chuy's Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(Tabular dollar amounts in thousands, except share and per share data)

2. Updates to Significant Accounting Policies

Leases

On December 31, 2018, the first day of fiscal year 2019, the Company adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)." As a result, the Company updated its significant accounting policy for leases. For the impact of the adoption on the Company's consolidated financial statements see Note 3, *Recent Accounting Pronouncements* and for additional information about our lease arrangements see Note 10, *Leases* in the notes to our unaudited condensed consolidated financial statements.

The Company determines if a contract contains a lease at inception. The Company's material long-term operating lease agreements are for the land and buildings for our restaurants as well as our corporate offices. The lease term begins on the date that the Company takes possession under the lease, including the pre-opening period during construction, when in many cases the Company is not making rent payments ("Rent Holiday").

Operating lease assets and liabilities are recognized at the lease commencement date for material leases with a term of greater than 12 months. Operating lease liabilities represent the present value of future minimum lease payments. Since our leases do not provide an implicit rate, our operating lease liabilities are calculated using the Company's secured incremental borrowing rate at lease commencement. We have no outstanding debt, and as a result, we estimate this rate based on prevailing financial market conditions, comparable companies, credit analysis and management judgment. Minimum lease payments include only fixed lease components of the agreement, as well as variable rate payments that depend on an index, initially measured using the index at the lease commencement date.

Operating lease assets represent our right to use an underlying asset and are based upon the operating lease liabilities adjusted for prepaid or accrued lease payments, initial direct costs and lease incentives. Lease incentives are recognized when earned and reduce our operating lease asset related to the lease. They are amortized through the operating lease assets as reductions of rent expense over the lease term.

Operating lease expense is recognized on a straight-line basis over the lease term. Certain of the Company's operating leases contain clauses that provide for contingent rent based on a percentage of sales greater than certain specified target amounts. Variable lease payments that do not depend on a rate or index, escalation in the index subsequent to the initial measurement, payments associated with non-lease components such as common area maintenance, real estate taxes and insurance, and short-term lease payments (leases with a term with 12 months or less) are expensed as incurred or when the achievement of the specified target that triggers the contingent rent is considered probable.

3. Recent Accounting Pronouncements

Leases

The Company adopted ASU 2016-02 Leases (Topic 842) on December 31, 2018, the first day of fiscal year 2019. This update requires a lessee to recognize on the balance sheet the right-of-use assets and lease liabilities for leases with a lease term of more than twelve months. This update also requires additional disclosures about the amount, timing, and uncertainty of cash flows arising from leases. This standard is effective for interim and annual periods beginning after December 15, 2018.

We elected the optional transition method option to apply the standard as of the effective date and therefore, we will not apply the standard to the comparative periods presented in our consolidated financial statements. The adoption of this standard had a significant impact on the Company's consolidated balance sheet as we recognized the right-of-use assets and lease liabilities for our operating leases. The adoption had an immaterial impact on the consolidated statement of income, cash flows and overall liquidity.

We elected to utilize the three practical expedients permitted within the standard, which eliminates the requirement to reassess the conclusions about historical lease identifications, lease classifications, and initial direct costs. We did not elect the hindsight practical expedient, which permits the use of hindsight when determining lease terms and impairments of right-of-use assets. Additionally, we elected to utilize the short-term lease exception policy, which allows us to not apply the recognition requirements of this standard to leases with a term of 12 months or less.

The effect of the changes made to the Company's condensed consolidated balance sheet as of December 31, 2018 for the adoption of ASU 2016-02 Leases (Topic 842) are as follows:

Chuy's Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(Tabular dollar amounts in thousands, except share and per share data)

| Assets | <u>December 30, 2018</u> | <u>Adoption of Leases (Topic 842)</u> | <u>December 31, 2018</u> |
|---|--------------------------|---|--------------------------|
| Non-current assets: | | | |
| Operating lease assets | — | 170,316 | 170,316 |
| Other assets and intangible assets, net | 2,425 | (2,093) | 332 |
| Liabilities and Stockholders' Equity | | | |
| Current Liabilities: | | | |
| Operating lease liability | — | 8,694 | 8,694 |
| Deferred lease incentives | 2,959 | (2,959) | — |
| Non-current liabilities: | | | |
| Deferred tax liability, less current portion | 2,601 | (106) | 2,495 |
| Accrued deferred rent | 14,516 | (14,516) | — |
| Deferred lease incentives, less current portion | 39,473 | (39,473) | — |
| Operating lease liabilities, less current portion | — | 216,932 | 216,932 |
| Stockholders' equity: | | | |
| Retained earnings | 94,192 | (349) | 93,843 |

The Company reviewed all other recently issued accounting pronouncements and concluded that they were either not applicable or not expected to have a significant impact on the Company's consolidated financial statements.

Chuy's Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(Tabular dollar amounts in thousands, except share and per share data)

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 herein as "restricted stock units"). For the thirteen weeks ended March 31, 2019 and April 1, 2018, there were approximately 37,000 and 11,500 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 income per share is as follows:

| | Thirteen Weeks Ended | |
|---|----------------------|----------------|
| | March 31, 2019 | April 1, 2018 |
| BASIC | | |
| Net income | \$ 3,217 | \$ 3,183 |
| Weighted-average common shares outstanding | 16,870,154 | 16,936,824 |
| Basic net income per common share | <u>\$ 0.19</u> | <u>\$ 0.19</u> |
| DILUTED | | |
| Net income | \$ 3,217 | \$ 3,183 |
| Weighted-average common shares outstanding | 16,870,154 | 16,936,824 |
| Dilutive effect of stock options and restricted stock units | 85,170 | 132,316 |
| Weighted-average of diluted shares | 16,955,324 | 17,069,140 |
| Diluted net income per common share | <u>\$ 0.19</u> | <u>\$ 0.19</u> |

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. The 2006 Plan was terminated by the board effective July 27, 2012, and no further awards may be granted under the plan after such date. However, the termination of the 2006 Plan did not affect outstanding awards granted. 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 March 31, 2019, a total of 335,215 shares of common stock are reserved and remain available for issuance under the 2012 Plan.

Stock-based compensation expense recognized in the accompanying condensed consolidated income statements was approximately \$750,000 and \$736,000 for the thirteen weeks ended March 31, 2019 and April 1, 2018, respectively.

Chuy's Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(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 thirteen weeks ended March 31, 2019 are as follows:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|----------------------------------|---------|--|--|---------------------------------|
| Outstanding at December 30, 2018 | 246,831 | \$ 19.67 | | |
| Exercised | (4,687) | 7.18 | | |
| Forfeited | — | — | | |
| Outstanding at March 31, 2019 | 242,144 | \$ 19.91 | 3.00 | \$ 1,354 |
| Exercisable at March 31, 2019 | 241,391 | \$ 19.88 | 3.00 | \$ 1,354 |

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 March 31, 2019 and multiplying this result by the related number of options outstanding and exercisable at March 31, 2019. The estimated fair value of the common stock as of March 31, 2019 used in the above calculation was \$22.77 per share, the closing price of the Company's common stock on March 29, 2019, the last trading day of the first quarter. The total intrinsic value of options exercised during the thirteen weeks ended March 31, 2019 was approximately \$66,000. The fair value of options vested during the thirteen weeks ended March 31, 2019 was approximately \$4,000.

There was approximately \$2,000 of total unrecognized compensation expense related to options granted under the 2006 Plan and the 2012 Plan as of March 31, 2019. This expense will be recognized ratably over the next year.

Restricted Stock Units

A summary of stock-based compensation activity related to restricted stock units for the thirteen weeks ended March 31, 2019 are as follows:

| | Shares | Weighted Average Fair Value | Weighted Average Remaining Contractual Term (Year) |
|----------------------------------|-----------|-----------------------------------|---|
| Outstanding at December 30, 2018 | 368,402 | \$ 27.01 | |
| Granted | 172,749 | 22.40 | |
| Vested | (115,688) | 27.20 | |
| Forfeited | (5,826) | 27.18 | |
| Outstanding at March 31, 2019 | 419,637 | \$ 25.06 | 3.09 |

The fair value of the restricted stock units is the quoted market value of our common stock on the date of grant. As of March 31, 2019, total unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately \$10.2 million, which is expected to be recognized ratably over the next five years.

Chuy's Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(Tabular dollar amounts in thousands, except share and per share data)

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.

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 March 31, 2019 the Company had no borrowings under our Revolving Credit Facility.

7. Accrued Liabilities

The major classes of accrued liabilities at March 31, 2019 and December 30, 2018 are summarized as follows:

| | March 31, 2019 | December 30, 2018 |
|---|------------------|-------------------|
| Accrued compensation and related benefits | \$ 9,086 | \$ 6,807 |
| Other accruals | 4,138 | 3,604 |
| Sales and use tax | 3,083 | 2,848 |
| Deferred gift card revenue | 1,648 | 2,176 |
| Property tax | 1,209 | 1,786 |
| Total accrued liabilities | <u>\$ 19,164</u> | <u>\$ 17,221</u> |

8. Share Repurchase Program

On October 26, 2017, the Company's board of directors approved a share repurchase program under which it authorized the Company, at its discretion, to repurchase up to \$30.0 million of its common stock through December 31, 2019. Repurchases of the Company's outstanding common stock will be made in accordance with applicable laws and may be made at management's discretion from time to time in the open market, through privately negotiated transactions or otherwise, including pursuant to Rule 10b5-1 trading plans. There is no guarantee as to the exact number of shares to be repurchased by the Company. The timing and extent of repurchases will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, and repurchases may be discontinued at any time.

We repurchased approximately 80,000 shares of common stock during the thirteen weeks ended March 31, 2019 for \$1.8 million. As of March 31, 2019, we have \$24.6 million remaining to be repurchased under this plan.

Chuy's Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(Tabular dollar amounts in thousands, except share and per share data)

9. 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 condensed consolidated financial position, results of operations, or cash flows.

10. Leases

The Company determines if a contract contains a lease at inception. The Company's material long-term operating lease agreements are for the land and buildings for our restaurants as well as our corporate offices. The initial lease terms range from 10 years to 15 years, most of which include renewal options of 10 to 15 years. The lease term is generally the minimum of the noncancelable period or the lease term including renewal options which are reasonably certain of being exercised up to a term of approximately 20 years.

Some of the leases provide for base rent, plus additional rent based on gross sales, as defined in each lease agreement. The Company is also generally obligated to pay certain real estate taxes, insurance and common area maintenance charges, and various other expenses related to properties, which are expensed as incurred.

Rent expense is paid to various landlords including several companies owned and controlled by the Company's founders and one of its former executive officers.

Components of operating lease costs are as follows for the thirteen weeks ended March 31, 2019:

| Lease cost | Classification | Unrelated Parties | Related Party | Total |
|-------------------------------------|--|-------------------|---------------|-----------------|
| Operating lease cost ^(a) | Occupancy, General and administrative expenses and Property and equipment, net | \$ 5,436 | \$ 576 | \$ 6,012 |
| Variable lease cost | Occupancy | 101 | 151 | 252 |
| | | <u>\$ 5,537</u> | <u>\$ 727</u> | <u>\$ 6,264</u> |

^(a) Includes short-term operating lease costs which are immaterial.

Weighted average lease term and discount rate are as follows:

| | March 31, 2019 |
|--|----------------|
| Weighted average remaining lease term (in years) | 15.5 |
| Weighted average discount rate | 7.8% |

Supplemental cash flow disclosures for the thirteen weeks ended March 31, 2019:

| | March 31, 2019 |
|--|----------------|
| Cash paid for operating lease liabilities | \$ 6,286 |
| Operating lease assets obtained in exchange for operating lease liabilities ^(a) | 168,984 |

^(a) Includes the transition adjustment for the adoption of Leases (Topic 842) as discussed in Note 3, *Recent Accounting Pronouncements* in the notes to our unaudited condensed consolidated financial statements. As a result of the store closures, the Company also shortened the remaining life of the related leases and recorded a \$1.3 million reduction to the operating lease assets and liabilities during the first quarter of 2019.

Supplemental balance sheet disclosures:

| Operating leases | Classification | March 31, 2019 |
|-------------------------------|---|-------------------|
| Right-of-use assets | Operating lease assets | \$ 167,088 |
| Current lease liabilities | Operating lease liability | \$ 9,106 |
| Non-current lease liabilities | Operating lease liability, less current portion | 213,245 |
| Total lease liabilities | | <u>\$ 222,351</u> |

Chuy's Holdings, Inc.
Notes to Unaudited Condensed Consolidated Financial Statements
(Tabular dollar amounts in thousands, except share and per share data)

Future minimum rent payments for our operating leases for each of the next five years as of March 31, 2019 are as follows:

| | Unrelated Parties | Related Party | Total |
|------------------------------------|-------------------|-----------------|-------------------|
| Fiscal year ending: | | | |
| Remainder of 2019 | \$ 17,607 | \$ 1,709 | \$ 19,316 |
| 2020 | 23,977 | 2,286 | 26,263 |
| 2021 | 24,261 | 2,292 | 26,553 |
| 2022 | 24,104 | 1,439 | 25,543 |
| 2023 | 24,472 | 1,446 | 25,918 |
| Thereafter | 261,547 | 1,205 | 262,752 |
| Total minimum lease payments | 375,968 | 10,377 | 386,345 |
| Less: imputed interest | 162,202 | 1,792 | 163,994 |
| Present value of lease liabilities | <u>\$ 213,766</u> | <u>\$ 8,585</u> | <u>\$ 222,351</u> |

As of March 31, 2019, operating lease payments include \$142.0 million related to options to extend lease terms that are reasonable certain of being exercised and exclude approximately \$13.8 million of legally binding minimum lease payments for leases signed but not yet commenced.

As previously disclosed in our 2018 Annual Report on Form 10-K and under the previous lease accounting, future minimum rent payments for our operating leases for each of the next five years and in total are as follows as of December 30, 2018:

| | Unrelated Parties | Related Party | Total |
|------------------------------|-------------------|------------------|-------------------|
| Fiscal year ending: | | | |
| 2019 | \$ 23,638 | \$ 2,279 | \$ 25,917 |
| 2020 | 25,184 | 2,286 | 27,470 |
| 2021 | 25,620 | 2,292 | 27,912 |
| 2022 | 25,463 | 1,439 | 26,902 |
| 2023 | 25,832 | 1,446 | 27,278 |
| Thereafter | 294,112 | 1,205 | 295,317 |
| Total minimum lease payments | <u>\$ 419,849</u> | <u>\$ 10,947</u> | <u>\$ 430,796</u> |

The above future minimum rental amounts exclude the amortization of deferred lease incentives, renewal options that are not reasonably assured of renewal, and contingent rent. The Company generally has escalating rents over the term of the leases and records rent expense on a straight-line basis.

11. Closure costs

We recorded closure costs of approximately \$0.4 million associated with two restaurants closed during the first quarter of 2019, one in Atlanta, Georgia, and one in Miami, Florida.

12. Subsequent events

Subsequent to March 31, 2019, the Company opened two new restaurants for a total of 101 restaurants in 19 states.

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 "Chuy's," "our Company," "the Company," "us," "we" and "our" refer to Chuy's Holdings, Inc. together with its subsidiaries.

The following discussion contains, in addition to historical information, forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. We use words such as "anticipated", "believe", "could", "should", "estimate", "intend", "may", "consider", "predict", "project", "target", and other similar terms and phrases, including references to assumptions to identify forward looking statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including changes in the economic environment, real estate markets, capital spending and our overall operating performance and those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 30, 2018 (our "Annual Report") and those set forth under "Cautionary Statement 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 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 March 31, 2019, we operated 99 Chuy's restaurants across 19 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 at a considerable value; and
- Leverage our infrastructure.

During the 13-week period ended March 31, 2019, we opened one new restaurant and closed two existing restaurants. We also opened two additional restaurants subsequent to March 31, 2019. 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 new 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 eighteenth month of operations. Changes in comparable restaurant sales reflect changes in sales for the comparable group of restaurants over a specified period of time. Changes in comparable sales reflect changes in customer count trends as well as changes in average check. Our comparable restaurant base consisted of 83 and 74 restaurants at March 31, 2019 and April 1, 2018, 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 | |
|--|----------------------|---------------|
| | March 31, 2019 | April 1, 2018 |
| Total restaurants (at end of period) | 99 | 93 |
| Total comparable restaurants (at end of period) | 83 | 74 |
| Average unit volumes (in thousands) | \$ 1,067 | \$ 1,055 |
| Change in comparable restaurant sales ⁽¹⁾ | 3.2% | (0.6)% |
| Average check | \$ 15.53 | \$ 15.01 |

⁽¹⁾ We consider a restaurant to be comparable in the first full quarter following the 18th month of operations. Change in comparable restaurant sales reflects changes in sales for the comparable group of restaurants over a specified period of time. Due to the inclusion of a 53rd week in fiscal 2017, there is a one-week calendar shift in the calculation of April 1, 2018 comparable restaurant sales.

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 2019 and 2018 fiscal years each consists of 52 weeks.

Key Financial Definitions

Revenue. Revenue primarily consists of food and beverage sales and also includes sales of our t-shirts, sweatshirts and hats. 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 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 and 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 cost, insurance, employee benefits, credit card fees, recruiting, delivery service and security. These costs generally increase with sales volume but may increase or decrease as a percentage of revenue.

Occupancy Costs. Occupancy costs include rent charges, both fixed and variable, as well as common area maintenance costs, property 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, 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, including lease termination costs, rent payments and other miscellaneous closing costs.

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 is also 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. Timing of 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 March 31, 2019 Compared to Thirteen Weeks Ended April 1, 2018

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

| | Thirteen Weeks Ended | | | | | |
|-------------------------------|----------------------|--------------|---------------|--------------|-----------|----------|
| | March 31, 2019 | % of Revenue | April 1, 2018 | % of Revenue | \$ Change | % Change |
| Revenue | \$ 102,111 | 100.0% | \$ 93,850 | 100.0% | \$ 8,261 | 8.8 % |
| Costs and expenses: | | | | | | |
| Cost of sales | 25,715 | 25.2% | 23,573 | 25.1% | 2,142 | 9.1 % |
| Labor | 36,699 | 35.9% | 33,468 | 35.7% | 3,231 | 9.7 % |
| Operating | 14,559 | 14.3% | 13,352 | 14.2% | 1,207 | 9.0 % |
| Occupancy | 7,982 | 7.8% | 7,097 | 7.6% | 885 | 12.5 % |
| General and administrative | 6,167 | 6.0% | 5,471 | 5.8% | 696 | 12.7 % |
| Marketing | 1,451 | 1.4% | 1,080 | 1.2% | 371 | 34.4 % |
| Restaurant pre-opening | 718 | 0.7% | 1,421 | 1.5% | (703) | (49.5)% |
| Closure costs | 372 | 0.4% | — | —% | 372 | * |
| Depreciation and amortization | 5,077 | 5.0% | 4,713 | 5.0% | 364 | 7.7 % |
| Total costs and expenses | 98,740 | 96.7% | 90,175 | 96.1% | 8,565 | 9.5 % |
| Income from operations | 3,371 | 3.3% | 3,675 | 3.9% | (304) | (8.3)% |
| Interest expense, net | 39 | —% | 16 | —% | 23 | * |
| Income before income taxes | 3,332 | 3.3% | 3,659 | 3.9% | (327) | (8.9)% |
| Income tax expense | 115 | 0.1% | 476 | 0.5% | (361) | (75.8)% |
| Net income | \$ 3,217 | 3.2% | \$ 3,183 | 3.4% | \$ 34 | 1.1 % |

* Not meaningful

Revenue. Revenue increased \$8.3 million, or 8.8%, to \$102.1 million for the thirteen weeks ended March 31, 2019 from \$93.9 million for the comparable period in 2018. This increase was primarily driven by \$7.1 million in incremental revenue from an additional 99 operating weeks provided by our new restaurants during the thirteen weeks ended March 31, 2019 as well as an increase in our comparable restaurant sales. These increases were partially offset by a decrease in sales related to our non-comparable restaurants that are not included in the incremental revenue discussed above. Revenue for non-comparable restaurants is historically lower as the restaurants transition out of the 'honeymoon' period that follows a restaurant's initial opening.

Comparable restaurant sales increased 3.2% for the thirteen weeks ended March 31, 2019 compared to the thirteen weeks ended April 1, 2018. The increase in comparable restaurant sales was primarily driven by a 2.9% increase in average check and 0.3% increase in average weekly customers. The Company estimates that the comparable sales were positively impacted by approximately 30 basis points due to the timing of New Year's Eve and Easter, partially offset by unfavorable weather conditions during the quarter. Our total revenue mix attributed to bar sales was 18.1% during the thirteen weeks ended March 31, 2019 as compared to 18.5% during the comparable period in 2018.

Cost of Sales. Cost of sales as a percentage of revenue increased to 25.2% during the thirteen weeks ended March 31, 2019 from 25.1% during the same period in 2018 primarily as a result of an increase in the cost of beef of approximately 40 basis points, and chicken of approximately 10 basis points. These increases were partially offset by a decrease in dairy and cheese costs of approximately 30 basis points, and produce of approximately 10 basis points.

Labor Costs. Labor costs as a percentage of revenue increased to 35.9% during the thirteen weeks ended March 31, 2019 from 35.7% during the comparable period in 2018 primarily due to hourly labor rate inflation on comparable stores of approximately 3.3%, new store labor inefficiencies and higher hourly rates in new markets.

Operating Costs. Operating costs as a percentage of revenue increased to 14.3% during the thirteen weeks ended March 31, 2019 from 14.2% during the comparable period in 2018. This increase is driven by higher insurance costs of approximately 20 basis points, higher delivery service charges of approximately 10 basis points, partially offset by increased leverage of our fixed operating costs on higher sales.

Occupancy Costs. Occupancy costs as a percentage of revenue increased to 7.8% during the thirteen weeks ended March 31, 2019 from 7.6% during the comparable period in 2018, 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 to \$6.2 million for the thirteen weeks ended March 31, 2019 as compared to \$5.5 million for the same period in 2018. The increase was primarily driven by a \$0.2 million increase in management salaries and equity compensation due to additional headcount to support our growth, a \$0.3 million increase in performance-based bonuses driven by company performance during the quarter and a \$0.2 million increase in professional fees.

Restaurant Pre-opening Costs. Restaurant pre-opening costs decreased to \$0.7 million for the thirteen weeks ended March 31, 2019 as compared to \$1.4 million for the same period in 2018. This decrease is primarily driven by a reduced development pipeline and timing of new restaurant openings in fiscal year 2019 as compared to the same period in 2018. During the thirteen weeks ended March 31, 2019, we incurred pre-opening costs for five new restaurants, of which four will open in the second quarter of 2019 or later. During the comparable period in 2018, we incurred pre-opening costs for seven new restaurants, of which five opened in the second quarter of 2018 or later.

Marketing. Marketing expense as percentage of revenue increased to 1.4% during the thirteen weeks ended March 31, 2019 from 1.2% during the comparable period in 2018 driven by our new national-level marketing initiatives.

Closure costs. As a result of the closure of two restaurants during the first quarter of 2019 we incurred closure costs of approximately \$0.4 million (\$0.4 million, net of tax or \$0.02 per diluted share).

Depreciation and Amortization. Depreciation and amortization costs increased \$0.4 million to \$5.1 million during the thirteen weeks ended March 31, 2019 from \$4.7 million during the comparable period in 2018, 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 March 31, 2019 our effective income tax rate decreased to approximately 3.5% from approximately 13.0% during the comparable period in 2018. The decrease in our effective tax rate for the quarter is primarily related to an increase in employee tax credits in proportion to our estimated taxable income offset by a negative impact of certain discrete items.

Net Income. As a result of the foregoing, net income was \$3.2 million during the thirteen weeks ended March 31, 2019 as compared to \$3.2 million during the comparable period in 2018.

Liquidity

Our principal sources of cash are net cash provided by operating activities, which includes tenant improvement allowances from our landlords, and borrowings, if any, under our \$25.0 million Revolving Credit Facility, which we entered into on November 30, 2012 and amended on October 30, 2015. Our need for capital resources is driven by our restaurant expansion plans, ongoing maintenance of our existing restaurants, investment in our corporate and information technology infrastructure, obligations under our operating leases and interest payments on our debt, if any. 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 store operations, we typically use operating lease arrangements for our restaurants. From time to time, we may also purchase the underlying land lot for development. We believe that our operating lease arrangements provide appropriate leverage of our capital structure in a financially efficient manner. We have also entered into operating leases with certain related parties with respect to six of our restaurants and our corporate headquarters. Effective December 31, 2018, the first day of fiscal year 2019, our existing lease obligations are reflected in our consolidated balance sheets as operating lease assets and lease liabilities in accordance with Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)". See Note 2, *Updates to Significant Accounting Policies* and Note 10, *Leases*, in the notes to our unaudited condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q for more information.

As of March 31, 2019, we had a cash and cash equivalent balance of \$7.3 million that we expect to utilize, along with cash flows from operations, to provide capital to support our restaurant expansion plans, ongoing maintenance of our existing restaurants, investment in infrastructure and to repurchase additional shares of our common stock subject to market conditions. Repurchases of the Company's outstanding common stock will be made in accordance with applicable laws and may be made at management's discretion from time to time in the open market, through privately negotiated transactions or otherwise, including pursuant to Rule 10b5-1 trading plans. There is no guarantee as to the exact number of shares to be repurchased by the Company. The timing and extent of repurchases will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, and repurchases may be discontinued at any time. As of March 31, 2019, we have \$24.6 million remaining to be repurchased under this plan.

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 Thirteen Weeks Ended March 31, 2019 and April 1, 2018

The following table summarizes the statement of cash flows for the thirteen weeks ended March 31, 2019 and April 1, 2018 (in thousands):

| | Thirteen Weeks Ended | |
|--|----------------------|---------------|
| | March 31, 2019 | April 1, 2018 |
| Net cash provided by operating activities | \$ 7,659 | \$ 11,962 |
| Net cash used in investing activities | (5,919) | (9,989) |
| Net cash used in financing activities | (2,594) | (2,322) |
| Net decrease in cash and cash equivalents | (854) | (349) |
| Cash and cash equivalents at beginning of year | 8,199 | 8,785 |
| Cash and cash equivalents at end of period | \$ 7,345 | \$ 8,436 |

Operating Activities. Net cash provided by operating activities decreased \$4.3 million to \$7.7 million for the thirteen weeks ended March 31, 2019 from \$12.0 million during the comparable period in 2018. 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 a \$4.2 million decrease in lease incentive receivables and deferred lease incentives mainly driven by our development schedule as well as a planned reduction in contracted tenant allowances on new leases; a \$1.5 million decrease in prepaid expenses driven by timing of payments and a \$1.0 million decrease in accounts receivable mainly as a result of a collection of a large insurance settlement due to the hurricanes in the first quarter of 2018. This total decrease of \$6.7 million was partially offset by a \$3.3 million increase in accrued liabilities mainly driven by a favorable change in hourly payroll cycle during the third quarter of 2018.

Investing Activities. Net cash used in investing activities decreased \$4.1 million to \$5.9 million for the thirteen weeks ended March 31, 2019 from \$10.0 million during the comparable period in 2018. The decrease was primarily due to a reduced development pipeline as well as the timing of our construction payments associated with new restaurants as well as expenditures related to maintaining our existing restaurants and other projects during the thirteen weeks ended March 31, 2019 as compared to the same period last year.

Financing Activities. Net cash used in financing activities increased by \$0.3 million to \$2.6 million for the thirteen weeks ended March 31, 2019 from \$2.3 million during the comparable period in 2018. The increase was primarily due to a \$0.2 million increase in the shares of our common stock repurchased in the open market during the thirteen weeks ended March 31, 2019.

As of March 31, 2019, we leased six of our restaurant locations and our corporate offices from entities owned by our founders and one former executive officer. 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 and Short-Term Capital Requirements**

There have been no material changes to our long-term or short-term capital requirements from what was previously disclosed in our Annual Report filed with the SEC. For information regarding our Revolving Credit Facility see Note 6, *Long-Term Debt* in the notes to our unaudited condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q for more information.

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 March 31, 2019, we are not involved in any variable interest entities transactions and do not otherwise have any off-balance sheet arrangements.

Significant Accounting Policies

Except as set forth in Note 2, *Updates to Significant Accounting Policies* in the notes to our unaudited condensed consolidated financial statements, 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 3, *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;
- our ability to manage our growth effectively;
- we operate most of our restaurants under long-term leases which we would be obligated to perform even if we closed our restaurants;
- we may not be able to renew leases;
- 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 federal health care legislation;
- food safety and food borne illness concerns;
- increased competition in the restaurant industry and the segments in which we compete;
- 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 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 timing and amount of repurchases of our common stock, if any, changes to the Company's expected liquidity position and the possibility that the repurchase program may be suspended or discontinued;
- the impact of future sales of our common stock and any additional capital raised by us through the sale of our common stock or grants of additional equity-based compensation;
- 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
- other risks and uncertainties described from time to time in the Company's filings with the Securities and Exchange Commission.

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. The foregoing factors should not be construed as exhaustive and should be read together with 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. You should not place undue reliance on these forward-looking statements and you should carefully consider all of the factors identified in this report that could cause actual results to differ. We assume no obligation to update these forward-looking statements, except as required by law.

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

During the quarter ended March 31, 2019, we implemented controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new lease accounting standard on our financial statements to facilitate adoption of the standard on December 31, 2018, the first day of fiscal year 2019.

Other than as described above, there have been no other changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during our first quarter ended March 31, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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 Annual Report filed with the SEC.

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 thirteen weeks ended March 31, 2019:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share | Total number of shares purchased as part of publicly announced plans or programs | Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) ⁽¹⁾ |
|--|---|-------------------------------------|---|--|
| December 31, 2018 through January 27, 2019 | — | \$ — | — | \$ 26.4 |
| January 28, 2019 through February 24, 2019 | — | — | — | 26.4 |
| February 25, 2019 through March 31, 2019 | 80,309 | 22.63 | 80,309 | 24.6 |
| Total | 80,309 | \$ 22.63 | 80,309 | |

(1) On November 2, 2017, we announced that our Board of Directors authorized us to repurchase an indeterminate number of our common stock through December 31, 2019 at an aggregate market value of up to \$30.0 million.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

| 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 |

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: May 8, 2019

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)

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Steven J. Hislop, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chuy's Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ Steven J. Hislop

Steven J. Hislop
President and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

I, Jon W. Howie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Chuy's Holdings, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of the annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2019

/s/ Jon W. Howie

Jon W. Howie

Vice President and Chief Financial Officer
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of Chuy's Holdings, Inc., a Delaware Corporation (the "Company"), for the period ending March 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Steven J. Hislop, President and Chief Executive Officer of the Company, and Jon W. Howie, Vice President and Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934;
and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods indicated.

Date: May 8, 2019

/s/ Steven J. Hislop

Steven J. Hislop
President and Chief Executive Officer
(Principal Executive Officer)

/s/ Jon W. Howie

Jon W. Howie
Vice President and Chief Financial Officer
(Principal Financial Officer)