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

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**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 27, 2020

OR

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

Commission File No. 001-35603

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**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 Rd.  
Austin, Texas 78704**  
(Address of Principal Executive Offices) (Zip Code)

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

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

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

The number of shares of the registrant's common stock outstanding at October 30, 2020 was 9,694,512.

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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)

	September 27, 2020 (Unaudited)	December 29, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 77,775	\$ 10,074
Accounts receivable	776	1,426
Lease incentives receivable	400	250
Inventories	1,401	1,657
Prepaid expenses and other current assets	3,884	3,376
Total current assets	84,236	16,783
Property and equipment, net	188,692	210,750
Operating lease assets	158,659	169,299
Deferred tax asset	9,111	2,601
Other assets and intangible assets, net	1,019	667
Tradename	21,900	21,900
Goodwill	24,069	24,069
Total assets	<u>\$ 487,686</u>	<u>\$ 446,069</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 3,670	\$ 4,253
Accrued liabilities	22,928	21,107
Operating lease liabilities	14,966	10,307
Income tax payable	267	532
Total current liabilities	41,831	36,199
Operating lease liabilities, less current portion	206,232	214,541
Other liabilities	673	393
Total liabilities	<u>248,736</u>	<u>251,133</u>
Contingencies (Note 8)		
Stockholders' equity:		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 19,694,512 shares issued and outstanding at September 27, 2020 and 16,636,464 shares issued and outstanding at December 29, 2019	197	166
Preferred stock, \$0.01 par value; 15,000,000 shares authorized and no shares issued or outstanding at September 27, 2020 and December 29, 2019	—	—
Paid-in capital	143,771	94,712
Retained earnings	94,982	100,058
Total stockholders' equity	<u>238,950</u>	<u>194,936</u>
Total liabilities and stockholders' equity	<u>\$ 487,686</u>	<u>\$ 446,069</u>

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		Thirty-Nine Weeks Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Revenue	\$ 82,032	\$ 109,082	\$ 242,244	\$ 324,325
Costs and expenses:				
Cost of sales	19,819	28,673	59,791	83,562
Labor	23,891	38,770	74,808	114,323
Operating	12,659	16,127	37,964	46,583
Occupancy	7,480	8,206	22,563	24,340
General and administrative	5,701	5,975	16,195	18,010
Marketing	514	1,492	1,888	4,487
Restaurant pre-opening	345	457	1,483	2,357
Legal settlement	—	—	—	775
Impairment, closed restaurant and other costs	3,444	7,300	23,999	7,888
Gain on insurance settlements	—	—	(1,000)	—
Depreciation and amortization	4,844	5,284	15,028	15,485
Total costs and expenses	78,697	112,284	252,719	317,810
Income (loss) from operations	3,335	(3,202)	(10,475)	6,515
Interest expense, net	33	28	238	90
Income (loss) before income taxes	3,302	(3,230)	(10,713)	6,425
Income tax expense (benefit)	476	(1,413)	(5,637)	(1,220)
Net income (loss)	\$ 2,826	\$ (1,817)	\$ (5,076)	\$ 7,645
Net income (loss) per common share:				
Basic	\$ 0.14	\$ (0.11)	\$ (0.28)	\$ 0.46
Diluted	\$ 0.14	\$ (0.11)	\$ (0.28)	\$ 0.45
Weighted-average shares outstanding:				
Basic	19,692,181	16,615,927	17,961,008	16,764,010
Diluted	19,784,364	16,720,662	17,961,008	16,836,430

See notes to the Unaudited Condensed Consolidated Financial Statements

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

	Thirteen Weeks Ended					
	Common Stock		Paid-in Capital		Retained Earnings	Total
	Shares	Amount				
Balance, June 30, 2019	16,698,652	\$ 167	\$ 94,820	\$ 103,305	\$ 198,292	
Stock-based compensation	—	—	856	—	856	
Proceeds from exercise of stock options	9,574	—	85	—	85	
Settlement of restricted stock units	2,642	—	—	—	—	
Repurchase of shares of common stock	(95,294)	(1)	(2,099)	—	(2,100)	
Indirect repurchase of shares for minimum tax withholdings	(930)	—	(23)	—	(23)	
Net loss	—	—	—	(1,817)	(1,817)	
Balance, September 29, 2019	<u>16,614,644</u>	<u>\$ 166</u>	<u>\$ 93,639</u>	<u>\$ 101,488</u>	<u>\$ 195,293</u>	
Balance, June 28, 2020	19,689,892	\$ 197	\$ 142,762	\$ 92,156	\$ 235,115	
Stock-based compensation	—	—	987	—	987	
Proceeds from exercise of stock options	2,850	—	39	—	39	
Settlement of restricted stock units	2,670	—	—	—	—	
Indirect repurchase of shares for minimum tax withholdings	(900)	—	(17)	—	(17)	
Net income	—	—	—	2,826	2,826	
Balance, September 27, 2020	<u>19,694,512</u>	<u>\$ 197</u>	<u>\$ 143,771</u>	<u>\$ 94,982</u>	<u>\$ 238,950</u>	
Thirty-Nine Weeks Ended						
	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 ASC 842 (Leases)	—	—	—	(349)	(349)	
Stock-based compensation	—	—	2,582	—	2,582	
Proceeds from exercise of stock options	26,217	—	218	—	218	
Settlement of restricted stock units	121,823	1	(1)	—	—	
Repurchase of shares of common stock	(351,774)	(4)	(7,789)	—	(7,793)	
Indirect repurchase of shares for minimum tax withholdings	(37,995)	—	(861)	—	(861)	
Net income	—	—	—	7,645	7,645	
Balance, September 29, 2019	<u>16,614,644</u>	<u>\$ 166</u>	<u>\$ 93,639</u>	<u>\$ 101,488</u>	<u>\$ 195,293</u>	
Balance, December 29, 2019	16,636,464	166	\$ 94,712	\$ 100,058	\$ 194,936	
Stock-based compensation	—	—	2,944	—	2,944	
Proceeds from exercise of stock options	6,021	—	73	—	73	
Sale of common stock from ATM offering, net of fees and expenses	3,041,256	31	48,136	—	48,167	
Settlement of restricted stock units	144,601	1	(1)	—	—	
Repurchase of shares of common stock	(90,144)	(1)	(1,421)	—	(1,422)	
Indirect repurchase of shares for minimum tax withholdings	(43,686)	—	(672)	—	(672)	
Net loss	—	—	—	(5,076)	(5,076)	
Balance, September 27, 2020	<u>19,694,512</u>	<u>\$ 197</u>	<u>\$ 143,771</u>	<u>\$ 94,982</u>	<u>\$ 238,950</u>	

See notes to the Unaudited Condensed Consolidated Financial Statements

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

	Thirty-Nine Weeks Ended	
	September 27, 2020	September 29, 2019
<b>Cash flows from operating activities:</b>		
Net (loss) income	\$ (5,076)	\$ 7,645
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	15,028	15,485
Operating lease assets	7,507	(303)
Amortization of loan origination costs	36	25
Loss on asset impairment and closed restaurant costs	20,869	7,114
Stock-based compensation	2,764	2,423
Loss on disposal of property and equipment	414	220
Deferred income taxes	(6,510)	(2,494)
Changes in operating assets and liabilities:		
Accounts receivable	650	855
Lease incentive receivable	(150)	1,239
Income tax receivable and payable	(265)	603
Inventories	256	(94)
Prepaid expenses and other current assets	(508)	(3,087)
Accounts payable	(617)	(2,434)
Accrued liabilities	2,101	5,343
Operating lease liabilities	<u>(3,650)</u>	<u>89</u>
Net cash provided by operating activities	<u>32,849</u>	<u>32,629</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(10,905)	(21,487)
Purchase of other assets	<u>(389)</u>	<u>(429)</u>
Net cash used in investing activities	<u>(11,294)</u>	<u>(21,916)</u>
<b>Cash flows from financing activities:</b>		
Net proceeds from sale of common stock	48,167	—
Borrowings under revolving line of credit	25,000	5,000
Payments under revolving line of credit	(25,000)	(5,000)
Repurchase of shares of common stock	(1,422)	(7,793)
Proceeds from the exercise of stock options	73	218
Indirect repurchase of shares for minimum tax withholdings	<u>(672)</u>	<u>(861)</u>
Net cash provided by (used in) financing activities	<u>46,146</u>	<u>(8,436)</u>
Net increase in cash and cash equivalents	67,701	2,277
Cash and cash equivalents, beginning of period	10,074	8,199
Cash and cash equivalents, end of period	<u>\$ 77,775</u>	<u>\$ 10,476</u>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Property and equipment and other assets acquired by accounts payable	<u>\$ 34</u>	<u>\$ 734</u>
<b>Supplemental cash flow disclosures:</b>		
Cash paid for interest	<u>\$ 185</u>	<u>\$ 53</u>
Cash paid for income taxes	<u>\$ 1,166</u>	<u>\$ 593</u>

See notes to the Unaudited Condensed 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 September 27, 2020, the Company operated 92 restaurants across 19 states and had nine restaurants temporarily closed due to the Coronavirus ("COVID-19") pandemic.

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 29, 2019. The accompanying condensed consolidated balance sheet as of December 29, 2019, 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 and notes thereto 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 2020 and 2019 fiscal years both consist of 52 weeks.

***COVID-19 Pandemic***

During March 2020, the World Health Organization declared the COVID-19 outbreak to be a global pandemic and the United States declared a National Public Health Emergency. The COVID-19 pandemic has significantly impacted health and economic conditions throughout the United States. Federal, state and local governments took a variety of actions to contain the spread of COVID-19. Many jurisdictions where our restaurants are located required mandatory closures or imposed capacity limitations and other restrictions affecting our operations. During the third quarter of 2020, the Company saw sequential improvement in comparable restaurant sales as state and local restrictions, while still in effect, were eased in many states, including Texas. As of September 27, 2020, the Company had reopened dining rooms at varying degrees of operating capacity in 92 of its 101 restaurants and nine restaurants remained temporarily closed.

During the thirty-nine weeks ended September 27, 2020, the Company had taken various steps to reduce non-essential spend, postpone restaurant development and rightsizing operations in light of reduced sales volume to improve our store level profitability and increase our cash flows. The Company also enhanced its liquidity position by repaying the \$25.0 million outstanding under its revolving credit facility with a portion of the net proceeds from the sale of its common stock in its "At-The-Market" ("ATM") offering. As of September 27, 2020, the Company had \$77.8 million in cash and cash equivalents, no debt and \$25.0 million of availability under its revolving credit facility. Management believes the Company's strong financial position, combined with the measures taken during the pandemic, will allow the Company to meet its financial obligations over the next twelve months.

We cannot predict how soon we will be able to reopen all of our restaurants at full capacity, and our ability to reopen and stay open will depend in part on the actions of a number of governmental bodies over which we have no control. Moreover, once restrictions are lifted, it is unclear how quickly customers will return to our restaurants, which may be a function of continued concerns over safety and/or depressed consumer sentiment due to adverse economic conditions, including job losses.

**2. Recent Accounting Pronouncements**

The Company reviewed all 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)

### 3. Net Income (Loss) Per Share

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

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

Diluted net income (loss) 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 restricted stock units (these restricted stock units were granted under the Chuy's Holdings, Inc. 2012 Omnibus Equity Incentive Plan (the "2012 Plan") and the Chuy's Holdings, Inc. 2020 Omnibus Incentive Plan (the "2020 Plan")). For the thirteen weeks ended September 27, 2020 and September 29, 2019, there were approximately 91,100 and 20,900 shares, respectively, of common stock equivalents that were excluded from the calculation of diluted net income (loss) per share because their inclusion would have been anti-dilutive. For the thirty-nine weeks ended September 27, 2020 and September 29, 2019, there were approximately 25,300 and 32,200 shares, respectively, of common stock equivalents that were excluded from the calculation of diluted net income (loss) per share because their inclusion would have been anti-dilutive.

The computation of basic and diluted net income (loss) per share is as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
<b>BASIC</b>				
Net income (loss)	\$ 2,826	\$ (1,817)	\$ (5,076)	\$ 7,645
Weighted-average common shares outstanding	19,692,181	16,615,927	17,961,008	16,764,010
Basic net income (loss) per common share	\$ 0.14	\$ (0.11)	\$ (0.28)	\$ 0.46
<b>DILUTED</b>				
Net income (loss)	\$ 2,826	\$ (1,817)	\$ (5,076)	\$ 7,645
Weighted-average common shares outstanding	19,692,181	16,615,927	17,961,008	16,764,010
Dilutive effect of stock options and restricted stock units	92,183	104,735	—	72,420
Weighted-average of diluted shares	19,784,364	16,720,662	17,961,008	16,836,430
Diluted net income (loss) per common share	\$ 0.14	\$ (0.11)	\$ (0.28)	\$ 0.45

### 4. Stock-Based Compensation

The Company has outstanding awards under the Chuy's Holdings, Inc. 2006 Stock Option Plan ("the "2006" Plan), the 2012 Plan and the 2020 Plan. On July 30, 2020, the Company's stockholders approved the 2020 Plan, which replaced the 2012 Plan. The termination of the 2012 Plan did not affect outstanding awards granted under 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. The termination of the 2006 Plan did not affect outstanding awards granted under the 2006 Plan. Options granted under these plans vest over five years from the date of grant and have a maximum term of ten years. As of September 27, 2020 the Company had 192,097 of stock options outstanding and exercisable with a remaining weighted average contractual term of two years.

Restricted stock units granted under the 2012 Plan and 2020 Plan vest over four to five years from the date of grant. As of September 27, 2020, a total of 1,115,070 shares of common stock were reserved and remained available for issuance under the 2020 Plan.

Stock-based compensation expense recognized in the accompanying condensed consolidated income statements was approximately \$941,000 and \$801,000 for the thirteen weeks ended September 27, 2020 and September 29, 2019, respectively, and \$2,764,000 and \$2,423,000 for the thirty-nine weeks ended September 27, 2020 and September 29, 2019, respectively.

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

A summary of stock-based compensation activity related to restricted stock units for the thirty-nine weeks ended September 27, 2020 are as follows:

	Shares	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (Year)
Outstanding at December 29, 2019	406,205	\$ 25.02	
Granted	284,099	14.77	
Vested	(144,601)	26.16	
Forfeited	(26,601)	18.34	
Outstanding at September 27, 2020	<u><u>519,102</u></u>	<u><u>\$ 19.43</u></u>	<u><u>2.59</u></u>

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 27, 2020, total unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately \$8.0 million. This amount is expected to be recognized evenly over the remaining vesting period of the grants.

## 5. 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 May 21, 2020, the Company entered into the second amendment (the "Amendment") to its Revolving Credit Facility (as amended, the "Revolving Credit Facility") to (1) extend the maturity date to April 30, 2022, (2) relax compliance with the financial covenants during the COVID-19 pandemic through the new maturity date and (3) revise the applicable margins and leverage ratios that determine the commitment fees and interest payable by the Company.

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"). 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 the prime rate, federal funds rate plus 0.5% and one month LIBOR plus 1.0%), or (ii) LIBOR, plus, in either case, an applicable margin based on the Company's consolidated total leverage ratio (as defined in the Amendment) with a LIBOR floor of 1.0%. 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 leverage ratio.

The Revolving Credit Facility also requires compliance with a fixed charge coverage ratio, a consolidated total leverage ratio, growth capital expenditure limitation during fiscal years 2020 and 2021 and a minimum monthly liquidity requirement of \$5.0 million. The Revolving Credit Facility also has 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 27, 2020, the Company had no borrowings under the Revolving Credit Facility, and we were in compliance with all covenants.

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

**6. Accrued Liabilities**

The major classes of accrued liabilities at September 27, 2020 and December 29, 2019 are summarized as follows:

	September 27, 2020	December 29, 2019
Accrued compensation and related benefits	\$ 10,858	\$ 9,342
Other accruals	4,091	4,302
Property tax	3,780	2,220
Sales and use tax	2,341	2,954
Deferred gift card revenue	1,858	2,289
Total accrued liabilities	\$ 22,928	\$ 21,107

**7. Stockholders' Equity****ATM Offering**

During the second quarter of 2020, the Company issued 3,041,256 shares of its common stock and received net proceeds of \$48.2 million after deducting sales agent commissions and offering expenses. A portion of the net proceeds was used to repay the \$25.0 million outstanding under the Company Revolving Credit Facility as of the end of the first quarter of 2020. The Company intends to use the remaining net proceeds from the ATM offering for general corporate purposes, including, but not limited to, increasing its liquidity as a result of the COVID-19 pandemic.

**Share Repurchase Program**

On October 31, 2019, the Company's board of directors authorized a new share repurchase program under which the Company may, at its discretion, repurchase up to \$0.0 million of its common stock through December 31, 2022. 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 90,000 shares of common stock for \$1.4 million during the first quarter of 2020. As a result of COVID-19, the Company temporarily suspended any further activity under the program and did not repurchase any shares during the third quarter of 2020. As of September 27, 2020, the Company had \$28.6 million remaining to be repurchased under this plan.

**8. Contingencies**

As of September 27, 2020, 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.

See Note 10, *Income Taxes* for additional information.

**9. 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 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. The initial lease terms range from 10 years to 15 years, most of which include renewal options totaling 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.

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 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.

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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 construction milestones are met and reduce our operating lease asset. 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. 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. 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. These variable payments are expensed when the achievement of the specified target that triggers the contingent rent is considered probable. As of September 27, 2020, all of the Company's leases were operating.

During the second quarter of 2020, the Company suspended lease payments for the months of April through June 2020 as a result of the COVID-19 pandemic. The Company was able to negotiate rent concessions, abatements and deferrals with landlords on a large portion of our operating leases. Financial Accounting Standards Board ("FASB") issued a clarification to accounting for lease concessions in response to the COVID-19 pandemic to reduce the operational challenges and complexity of lease accounting. The Company used the relief provisions provided by FASB and made an election to account for the lease concessions as if they were part of the original lease agreement. The recognition of rent concessions did not have a material impact on our consolidated financial statements.

Components of operating lease costs are included in occupancy, closed restaurant costs, restaurant pre-opening, general and administrative expense and property and equipment, net:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Lease cost				
Operating lease cost <sup>(a)</sup>	\$ 6,500	\$ 6,496	\$ 19,523	\$ 19,082
Variable lease cost	143	315	360	865
	<b>\$ 6,643</b>	<b>\$ 6,811</b>	<b>\$ 19,883</b>	<b>\$ 19,947</b>

<sup>(a)</sup> Includes short-term operating lease costs which are immaterial.

Supplemental cash flow disclosures for the thirty-nine weeks ended September 27, 2020 and September 29, 2019, respectively:

	Thirty-Nine Weeks Ended	
	September 27, 2020	September 29, 2019
Cash paid for operating lease liabilities	15,472	19,177
Operating lease assets obtained in exchange for operating lease liabilities (a)	(1,351)	176,511

<sup>(a)</sup> The thirty-nine weeks ended September 27, 2020 includes a \$7.0 million reduction to the operating lease assets and liabilities mainly as a result of shortening the remaining life of certain leases during the first quarter of 2020. The thirty-nine weeks ended September 29, 2019 includes the transition adjustment for the adoption of Leases (Topic 842) of \$170.3 million as well as a \$1.3 million reduction to the operating lease assets and liabilities as a result of shortening the remaining life of certain leases.

The Company recorded \$0.2 million and \$0.7 million in deferred lease incentives during the thirty-nine weeks ended September 27, 2020 and September 29, 2019, respectively.

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Supplemental balance sheet and other lease disclosures:

Operating leases	Classification	September 27, 2020	December 29, 2019
Right-of-use assets	Operating lease assets	\$ 158,659	\$ 169,299
Deferred rent payments <sup>(a)</sup>	Operating lease liability	3,269	—
Current lease liabilities	Operating lease liability	11,697	10,307
		14,966	10,307
Non-current lease liabilities	Operating lease liability, less current portion	206,232	214,541
		221,198	224,848

<sup>(a)</sup> A majority of the deferred rent payments is payable within the next 12 months

Weighted average remaining lease term (in years)	14.0	15.0
Weighted average discount rate	7.9 %	7.8 %

Future minimum rent payments for our operating leases, excluding the deferred rent payments of \$3 million, for the next five years as of September 27, 2020 are as follows:

Fiscal year ending:

Remainder of 2020	\$ 6,944
2021	28,521
2022	27,753
2023	27,625
2024	26,459
Thereafter	243,249
Total minimum lease payments	360,551
Less: imputed interest	142,622
Present value of lease liabilities	\$ 217,929

As of September 27, 2020, operating lease payments exclude approximately \$7.1 million of legally binding minimum lease payments for leases signed but which we have not yet taken possession.

#### 10. Income Taxes

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") was signed into law. The CARES Act includes provisions that allow net operating losses in 2018, 2019 and 2020 to be carried back for up to five years and eliminates the 80% taxable income limitation on such net operating loss deductions if utilized before 2021. Additionally, the CARES Act includes an administrative correction of the depreciation recovery period for qualified improvement property ("QIP"), including certain restaurant leasehold improvement costs that will result in the acceleration of depreciation on these assets retroactive to 2018. As a result, we estimate we will receive federal tax refunds for a total of approximately \$1.6 million.

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The following is a reconciliation of the expected federal income taxes at the statutory rates of 21% for the thirteen and thirty-nine weeks ended September 27, 2020 and September 29, 2019:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Expected income tax (benefit) expense	693	(678)	(2,250)	1,349
State tax expense, net of federal benefit	216	(25)	108	470
FICA tip credit	(1,187)	(729)	(2,979)	(3,205)
Deferred tax balance adjustment (a)	620	—	(1,016)	—
Other	134	19	500	166
Income tax (benefit) expense	<u>476</u>	<u>(1,413)</u>	<u>(5,637)</u>	<u>(1,220)</u>

(a) Reflects the tax benefit recorded in the quarter associated with a carryback of federal net operating losses due to the CARES Act administrative correction of the depreciation recovery period for QIP.

Deferred tax assets were \$9.1 million and \$2.6 million as of September 27, 2020 and September 29, 2019, respectively. This increase is primarily related to an increase in the general business tax credits.

Deferred tax assets are reduced by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some or all of the deferred taxes will not be realized. Both positive and negative evidence is considered in forming management's judgment as to whether a valuation allowance is appropriate, and more weight is given to evidence that can be objectively verified. The tax benefits relating to any reversal of the valuation allowance on the deferred tax assets would be recognized as a reduction of future income tax expense. As of September 27, 2020 the Company believes that it will realize all of the deferred tax assets. Therefore, no valuation allowance has been recorded.

The Internal Revenue Service ("IRS") audited our tax return for the fiscal year 2016. In August 2020, the IRS issued a Notice of Proposed Adjustment to the Company asserting that the tenant allowances paid under our operating leases should be recorded as taxable income for years 2016 and prior. The Company disagrees with this position based on the underlying facts and circumstances as well as standard industry practice. The Company estimates if the IRS's position was upheld, the Company's tax liability could range between \$0.5 million and \$2.5 million. In accordance with the provisions of FASB Accounting Standards Codification Subtopic 740-10, *Accounting for Uncertainty in Income Taxes*, the Company believes that it is more likely than not that the Company's position will ultimately be sustained upon further examination, including the resolution of the IRS's appeal or litigation processes, if any. As a result, no additional accrual has been made as of September 27, 2020.

The tax years 2019, 2018 and 2017 remain open for IRS audit. The Company has received no notice of audit or any notifications from the IRS for any of the open tax years.

#### **11. Impairment, Closed Restaurant and Other Costs**

The Company reviews long-lived assets, such as property and equipment and intangibles, subject to amortization, for impairment when events or circumstances indicate the carrying value of the assets may not be recoverable. In determining the recoverability of the asset value, an analysis is performed at the individual restaurant level and primarily includes an assessment of historical undiscounted cash flows and other relevant factors and circumstances. The Company evaluates future cash flow projections in conjunction with qualitative factors and future operating plans and regularly reviews any restaurants with a deficient level of cash flows for the previous 24 months to determine if impairment testing is necessary. Recoverability of assets to be held and used is measured by a comparison of the carrying value of the restaurant to its estimated future undiscounted cash flows. If the estimated undiscounted future cash flows are less than the carrying value, we determine if there is an impairment loss by comparing the carrying value of the restaurant to its estimated fair value. Based on this analysis, if the carrying value of the restaurant exceeds its estimated fair value, an impairment charge is recognized by the amount by which the carrying value exceeds the fair value.

We make assumptions to estimate future cash flows and asset fair values. The estimated fair value is generally determined using the depreciated replacement cost method, the income approach, or discounted cash flow projections. Estimated future cash flows are highly subjective assumptions based on the Company's projections and understanding of our business, historical operating results, and trends in sales and restaurant level operating costs.

The Company's impairment assessment process requires the use of estimates and assumptions regarding future cash flows and operating outcomes, which are based upon a significant degree of management judgment. The estimates used in the impairment analysis represent a Level 3 fair value measurement. The Company continues to assess the performance of restaurants and

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monitors the need for future impairment. Changes in the economic environment, real estate markets, capital spending, overall operating performance and underlying assumptions could impact these estimates and result in future impairment charges.

The Company recorded impairment, closed restaurant and other costs as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Operating lease assets impairment	\$ —	\$ —	\$ 3,133	—
Property and equipment impairment	1,008	7,114	16,152	\$ 7,114
Total impairment charge	1,008	7,114	19,285	7,114
 Closed restaurant costs	1,591	186	3,869	774
COVID-19 related charges	845	—	845	—
 Impairment, closed restaurant and other costs	<u>\$ 3,444</u>	<u>\$ 7,300</u>	<u>\$ 23,999</u>	<u>\$ 7,888</u>

During the thirteen weeks ended September 27, 2020, the Company recorded a \$1.0 million impairment charge as a result of the discontinuation of the Company's complimentary "Nacho Car" and a COVID-19 related charge of \$0.8 million due to idle development costs as a result of delaying restaurant openings to 2021.

During the thirteen weeks ended September 27, 2020, the Company also incurred \$1.6 million in closed restaurant costs, which represent on-going expenses to maintain the closed restaurants such as rent expense, utility and insurance costs.

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

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 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 on Form 10-K for the year ended December 29, 2019 (our "Annual Report") and the unaudited condensed consolidated financial statements and the accompanying notes thereto included herein.

**COVID-19 Pandemic**

During March 2020, the World Health Organization declared the COVID-19 outbreak to be a global pandemic and the United States declared a National Public Health Emergency. The COVID-19 pandemic has significantly impacted health and economic conditions throughout the United States. Federal, state and local governments took a variety of actions to contain the spread of COVID-19. Many jurisdictions where our restaurants are located required mandatory closures or imposed capacity limitations and other restrictions affecting our operations. During the third quarter of 2020, the Company saw sequential improvement in monthly comparable restaurant sales as state and local restrictions, while still in effect, were eased in many states, including Texas. As of September 27, 2020, the Company had reopened dining rooms at varying degrees of operating capacity in 92 of its 101 restaurants. Nine restaurants remain temporarily closed.

Selected monthly comparable restaurant sales and average weekly sales per restaurant for the third quarter and fourth quarter to-date are as follows:

	Month Ending			
	7/26/20	8/23/20	9/27/20	10/25/20
<b>Comparable Restaurant Sales</b>	(26.3)%	(20.0)%	(13.8)%	(14.2)%
<b>Average Weekly Sales per Restaurant</b>	\$66,065	\$71,031	\$68,579	\$68,464
<b>Number of Open Restaurants</b>	92	92	92	92

July comparable restaurant sales were negatively impacted by approximately 170 basis points as a result of July 4th falling on the weekend as compared to a weekday last year. Off-premise sales remained strong at a rate more than double pre-COVID-19 levels comprising approximately 30% to 35% of all revenue during the third and fourth quarter date. As of September 27, 2020, the Company had a strong financial position with \$77.8 million in cash and cash equivalents, no debt and \$25.0 million of availability under its revolving credit facility. The Company believes it maintains ample financial flexibility with which to navigate the current environment.

During the thirty-nine weeks ended September 27, 2020, the Company had taken various steps to reduce non-essential spend, postpone restaurant development and rightsize operations in light of reduced sales volume to improve our store level profitability and increase our cash flows. The Company also enhanced its liquidity position by repaying the \$25.0 million outstanding under its revolving credit facility with a portion of the net proceeds from the sale of its common stock in its "At-The-Market" ("ATM") offering. As of September 27, 2020, the Company had \$77.8 million in cash and cash equivalents, no debt and \$25.0 million of availability under its revolving credit facility. Management believes the Company's strong financial position, combined with the measures taken during the pandemic, will allow the Company to meet its financial obligations over the next twelve months.

We cannot predict how soon we will be able to reopen all of our restaurants at full capacity, and our ability to reopen and stay open will depend in part on the actions of a number of governmental bodies over which we have no control. Moreover, once restrictions are lifted, it is unclear how quickly customers will return to our restaurants, which may be a function of continued concerns over safety and/or depressed consumer sentiment due to adverse economic conditions, including job losses.

**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 September 27, 2020, we operated 92 restaurants across 19 states and had nine temporarily closed restaurants due to COVID-19.

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.

We have an established presence in Texas, the Southeast and the Midwest, with restaurants in multiple large markets in these regions. In response to COVID-19, all future restaurant development for fiscal year 2020 has been delayed and openings have been put on hold. There were three restaurants at various stages of completion at the end of the third quarter of 2020, and we intend to complete and open these restaurants in fiscal year 2021.

**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 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 85 restaurants at September 27, 2020.
- *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.
- *Average Weekly Sales per Restaurant.* Average Weekly Sales per Restaurant is calculated by dividing total weekly sales by number of operating restaurants in a given week.
- *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		Thirty-Nine Weeks Ended	
	September 27, 2020	September 29, 2019	September 27, 2020	September 29, 2019
Total open restaurants (at end of period)	92	103	92	103
Total comparable restaurants (at end of period)	85	90	85	90
Average unit volumes (in thousands)	\$ 901	\$ 1,070	\$ 2,614	\$ 3,292
Change in comparable restaurant sales <sup>(1)</sup>	(19.8)%	2.6 %	(23.3)%	2.5 %
Average check	\$ 17.53	\$ 15.78	\$ 16.90	\$ 15.75

<sup>(1)</sup> 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.

## 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 2020 and 2019 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.

**Impairment, closed restaurant and other costs.** Impairment costs include impairment of long-lived assets associated with restaurants where the carrying amount of the asset is not recoverable and exceeds the fair value of the asset. Closed restaurant costs consist of any costs associated with the closure of a restaurant such as lease termination costs, severance benefits, other miscellaneous closing costs as well as costs to maintain these closed restaurants through the lease termination date such as occupancy costs, including rent payments less sublease income, if any, and insurance and utility costs. Other costs consist of COVID-19 related charges due to idle development costs as a result of delaying restaurant openings to 2021.

**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

In addition to the impacts of COVID-19 discussed above, 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 September 27, 2020 Compared to Thirteen Weeks Ended September 29, 2019

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

	Thirteen Weeks Ended					
	September 27, 2020	% of Revenue	September 29, 2019	% of Revenue	\$ Change	% Change
Revenue	\$ 82,032	100.0 %	\$ 109,082	100.0 %	\$ (27,050)	(24.8)%
Costs and expenses:						
Cost of sales	19,819	24.2	28,673	26.3	(8,854)	(30.9)
Labor	23,891	29.1	38,770	35.5	(14,879)	(38.4)
Operating	12,659	15.4	16,127	14.8	(3,468)	(21.5)
Occupancy	7,480	9.1	8,206	7.5	(726)	(8.8)
General and administrative	5,701	6.9	5,975	5.5	(274)	(4.6)
Marketing	514	0.6	1,492	1.4	(978)	(65.5)
Restaurant pre-opening	345	0.4	457	0.4	(112)	(24.5)
Impairment, closed restaurant and other costs	3,444	4.2	7,300	6.7	(3,856)	(52.8)
Depreciation and amortization	4,844	6.0	5,284	4.8	(440)	(8.3)
Total costs and expenses	78,697	95.9	112,284	102.9	(33,587)	(29.9)
Income (loss) from operations	3,335	4.1	(3,202)	(2.9)	6,537	*
Interest expense, net	33	0.1	28	0.1	5	17.9
Income (loss) before income taxes	3,302	4.0	(3,230)	(3.0)	6,532	*
Income tax expense (benefit)	476	0.6	(1,413)	(1.3)	1,889	*
Net income (loss)	\$ 2,826	3.4 %	\$ (1,817)	(1.7)%	\$ 4,643	*

\* Not meaningful

**Revenue.** Revenue decreased \$27.1 million, or 24.8%, to \$82.0 million for the thirteen weeks ended September 27, 2020 from \$109.1 million for the comparable period in 2019. Sales in the third quarter of 2020 were negatively impacted by a decline in customer traffic as a result of COVID-19, including the loss of 117 operating weeks due to temporary closures of nine restaurants, as well as the loss of 52 operating weeks due to stores closed during fiscal year 2019. For the third quarter of 2020, off-premise sales were approximately 33% of total revenue compared to approximately 12% in the same period last year.

Comparable restaurant sales decreased 19.8% for the thirteen weeks ended September 27, 2020 compared to the thirteen weeks ended September 29, 2019. The decrease in comparable restaurant sales was primarily driven by a 27.5% decrease in average weekly customers, partially offset by a 7.7% increase in average check. The comparable restaurant sales by month during the third quarter decreased: 26.3%, 20.0% and 13.8%.

**Cost of Sales.** Cost of sales as a percentage of revenue decreased to 24.2% during the thirteen weeks ended September 27, 2020 from 26.3% during the same period in 2019, primarily as a result of switching to a limited menu and eliminating the complimentary buffet style chips and salsa, or “Nacho Car”, which was partially offset by an increase of approximately 70 basis points in the cost of beef and approximately 10 basis points in the cost of dairy and cheese.

**Labor Costs.** Labor costs as a percentage of revenue decreased to 29.1% during the thirteen weeks ended September 27, 2020 from 35.5% during the comparable period in 2019 as a result of a reduction in hourly employees and store management personnel as the Company transitioned to a new operating model during the previous quarter as well as an hourly labor rate deflation at its comparable restaurants of approximately 1.8%. During the third quarter of 2020, the Company was fully staffed at its current operating capacity.

**Operating Costs.** Operating costs as a percentage of revenue increased to 15.4% during the thirteen weeks ended September 27, 2020 from 14.8% during the comparable period in 2019, primarily driven by increases in delivery service charges of approximately 100 basis points as a result of the growth in the Company's off-premise business, partially offset by lower credit card fees of approximately 20 basis points and lower insurance costs of approximately 10 basis points.

**Occupancy Costs.** Occupancy costs as a percentage of revenue increased to 9.1% during the thirteen weeks ended September 27, 2020 from 7.5% during the comparable period in 2019, primarily as a result of sales deleverage on fixed occupancy expenses and higher property taxes.

**General and Administrative Expenses.** General and administrative expenses decreased to \$5.7 million for the thirteen weeks ended September 27, 2020 as compared to \$6.0 million for the same period in 2019. The decline was primarily driven by reduced travel, recruiting, and various other expenses as a result of cost saving measures in response to COVID-19.

**Restaurant Pre-opening Costs.** Restaurant pre-opening costs decreased to \$0.3 million for the thirteen weeks ended September 27, 2020 as compared to \$0.5 million for the same period in 2019 due to a postponement of all new store openings for the remainder of fiscal 2020.

**Marketing.** Marketing expense as a percentage of revenue decreased to 0.6% during the thirteen weeks ended September 27, 2020 from 1.4% during the comparable period in 2019, primarily due to the suspension of the Company's national-level marketing initiatives in response to COVID-19 while relying on more cost effective organic local store digital marketing efforts. The Company expects to increase its advertising campaign during the fourth quarter of 2020.

**Impairment, closed restaurant and other costs.** Impairment, closed restaurant and other costs decreased to \$3.4 million during the thirteen weeks ended September 27, 2020 from \$7.3 million during the comparable period in 2019 primarily due to a \$7.1 million loss related to the impairment of five restaurants during the comparable period in 2019, partially offset by a \$1.0 million impairment charge recorded during the third quarter of 2020 as a result of the discontinuation of the Company's complimentary “Nacho Car,” a COVID-19 related charge of \$0.8 million due to idle development costs as a result of delaying restaurant openings to 2021 and \$1.4 million increase in closed restaurant costs.

**Depreciation and Amortization.** Depreciation and amortization costs decreased \$0.4 million to \$4.8 million during the thirteen weeks ended September 27, 2020 from \$5.3 million recorded during the comparable period in 2019 primarily due to a decrease in depreciation related to closed stores.

**Income tax expense (benefit).** We recorded an income tax expense of \$0.5 million in the third quarter of 2020 compared to a benefit of \$1.4 million during the comparable period in 2019. The increase in tax expense in the quarter was in part related to a reduction in the tax benefit from the revaluation of deferred tax assets, associated with the CARES Act, during the third quarter of 2020.

In August 2020, the IRS issued a Notice of Proposed Adjustment to the Company asserting that the tenant allowances paid under our operating leases should be recorded as taxable income for years 2016 and prior. The Company disagrees with the IRS's position and believes that it is more likely than not that the Company's position will ultimately be sustained upon further examination, including the resolution of the IRS's appeal or litigation processes, if any. As a result, no further tax accrual was made. The Company estimates if the IRS's position was upheld, the Company's tax liability could range between \$0.5 million and \$2.5 million.

**Net Income.** As a result of the foregoing, net income was \$2.8 million during the thirteen weeks ended September 27, 2020 as compared to a loss of \$1.8 million during the comparable period in 2019.

#### **Thirty-Nine Weeks Ended September 27, 2020 Compared to Thirty-Nine Weeks Ended September 29, 2019**

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

	Thirty-Nine Weeks Ended					
	September 27, 2020	% of Revenue	September 29, 2019	% of Revenue	Change	% Change
Revenue	\$ 242,244	100.0 %	\$ 324,325	100.0 %	\$ (82,081)	(25.3)%
Costs and expenses:						
Cost of sales	59,791	24.7	83,562	25.8	(23,771)	(28.4)
Labor	74,808	30.9	114,323	35.2	(39,515)	(34.6)
Operating	37,964	15.7	46,583	14.4	(8,619)	(18.5)
Occupancy	22,563	9.3	24,340	7.5	(1,777)	(7.3)
General and administrative	16,195	6.7	18,010	5.6	(1,815)	(10.1)
Marketing	1,888	0.8	4,487	1.4	(2,599)	(57.9)
Restaurant pre-opening	1,483	0.6	2,357	0.7	(874)	(37.1)
Legal settlement	—	—	775	0.2	(775)	*
Impairment, closed restaurant and other costs	23,999	9.9	7,888	2.4	16,111	*
Gain on insurance settlements	(1,000)	(0.4)	—	—	(1,000)	*
Depreciation and amortization	15,028	6.1	15,485	4.8	(457)	(3.0)
Total costs and expenses	252,719	104.3	317,810	98.0	(65,091)	(20.5)
(Loss) income from operations	(10,475)	(4.3)	6,515	2.0	(16,990)	*
Interest expense, net	238	0.1	90	—	148	*
(Loss) income before income taxes	(10,713)	(4.4)	6,425	2.0	(17,138)	*
Income tax benefit	(5,637)	(2.3)	(1,220)	(0.4)	(4,417)	*
Net (loss) income	\$ (5,076)	(2.1)%	\$ 7,645	2.4 %	\$ (12,721)	*

\* Not meaningful

**Revenue.** Revenue decreased \$82.1 million, or 25.3%, to \$242.2 million for the thirty-nine weeks ended September 27, 2020 from \$324.3 million for the comparable period in 2019. The decrease in revenue was primarily attributed to a decline in customer traffic as a result of COVID-19, including the loss of 243 operating weeks due to temporary closures of nine restaurants, as well as the loss of 167 operating weeks due to stores closed during fiscal year 2019. The Company operated on an off-premise only operating model beginning in late March 2020 through May 2020. Since then, the Company reopened and operated dining rooms at varying degrees of operating capacity in 92 of its 101 restaurants. The decrease in revenue was partially offset by \$10.2 million of incremental revenue from an additional 169 operating weeks provided by new restaurants.

Comparable restaurant sales decreased 23.3% for the thirty-nine weeks ended September 27, 2020 compared to the thirty-nine weeks ended September 29, 2019. The decrease in comparable restaurant sales was primarily driven by a 28.3% decrease in average weekly customers, partially offset by a 5.0% increase in average check. During the third quarter of 2020, the Company saw sequential improvement in monthly comparable restaurant sales as state and local restrictions, while still in effect, were eased in many states, including Texas.

**Cost of Sales.** Cost of sales as a percentage of revenue decreased to 24.7% during the thirty-nine weeks ended September 27, 2020 from 25.8% during the same period in 2019, primarily as a result of switching to a limited menu and eliminating the complimentary buffet style chips and salsa, or “Nacho Car,” which was partially offset by an increase of approximately 60 basis points in the cost of beef and approximately 20 basis points in the cost of dairy and cheese.

**Labor Costs.** Labor costs as a percentage of revenue decreased to 30.9% during the thirty-nine weeks ended September 27, 2020 from 35.2% during the comparable period in 2019. This decrease is primarily due to furloughing a substantial number of hourly employees as well as store management personnel to right-size our operations as the Company transitioned to an off-premise only operating model at the end of the first quarter of 2020. During the third quarter of 2020, the Company was fully staffed at its current operating capacity. Hourly labor rate inflation in comparable stores was approximately 1.7%.

**Operating Costs.** Operating costs as a percentage of revenue increased to 15.7% during the thirty-nine weeks ended September 27, 2020 from 14.4% during the comparable period in 2019, primarily driven by increases in delivery service charges of approximately 90 basis points and to-go supplies of approximately 60 basis points as a result of the growth in the Company's off-premise business.

**Occupancy Costs.** Occupancy costs as a percentage of revenue increased to 9.3% during the thirty-nine weeks ended September 27, 2020 from 7.5% during the comparable period in 2019, primarily as a result of sales deleverage on fixed occupancy expenses and higher property taxes.

**General and Administrative Expenses.** General and administrative expenses decreased to \$16.2 million for the thirty-nine weeks ended September 27, 2020 as compared to \$18.0 million for the same period in 2019, primarily driven by a \$1.7 million decrease in performance-based bonuses, staff reductions and temporary pay reductions during the thirty-nine weeks ended September 27, 2020 as part of our response to COVID-19.

**Restaurant Pre-opening Costs.** Restaurant pre-opening costs decreased to \$1.5 million for the thirty-nine weeks ended September 27, 2020 as compared to \$2.4 million for the same period in 2019 primarily due to a postponement of all new store openings for the remainder of fiscal 2020.

**Marketing.** Marketing expense as a percentage of revenue decreased to 0.8% during the thirty-nine weeks ended September 27, 2020 from 1.4% during the comparable period in 2019, primarily due to the suspension of the Company's national-level marketing initiatives in response to COVID-19 while relying on more cost effective local store digital marketing efforts. The Company expects to increase its advertising campaign during the fourth quarter of 2020.

**Impairment, closed restaurant and other costs.** Impairment, closed restaurant and other costs increased to \$24.0 million during the thirty-nine weeks ended September 27, 2020 from \$7.9 million during the comparable period in 2019. As a result of the negative impact that COVID-19 had on its business, including the temporary closure of nine restaurants, during the first quarter of 2020, the Company performed an impairment analysis of its restaurants and identified certain restaurants as impaired and recorded an \$18.3 million impairment charge. Additionally, during the third quarter of 2020, the Company recorded an additional \$1.0 million impairment charge related to the discontinuation of its complimentary “Nacho Car” and a COVID-19 related charge of \$0.8 million due to idle development costs as a result of delaying restaurant openings to 2021. The Company also recorded \$3.9 million and \$0.8 million of closed restaurant costs, which include rent expense, utility and insurance costs during the thirty-nine weeks ended September 27, 2020 and September 29, 2019, respectively.

**Gain on insurance settlements.** During the second quarter of 2020, the Company received a one-time insurance settlement in the amount of \$1.0 million under its trade name restoration insurance policy.

**Income tax benefit.** We recorded an income tax benefit of \$5.6 million during the thirty-nine weeks ended September 27, 2020 compared to \$1.2 million during the comparable period in 2019. The tax benefit was primarily due to a projected annual net loss as compared to net income in the same period last year as well as the tax benefit relating to the revaluation of deferred tax assets due to the administrative correction of the depreciation recovery period for qualified improvement property and the reinstatement of net operating loss carrybacks as a result of the CARES Act. The Company believes that it will realize all of its deferred tax assets and, therefore, no valuation allowance is required at this time.

In August 2020, the IRS issued a Notice of Proposed Adjustment to the Company asserting that the tenant allowances paid under our operating leases should be recorded as taxable income for years 2016 and prior. The Company disagrees with the IRS's position and believes that it is more likely than not that the Company's position will ultimately be sustained upon further examination, including the resolution of the IRS's appeal or litigation processes, if any. As a result, no further tax accrual was made. The Company estimates if the IRS's position was upheld, the Company's tax liability could range between \$0.5 million and \$2.5 million.

**Net (loss) income.** As a result of the foregoing, net loss was \$5.1 million during the thirty-nine weeks ended September 27, 2020 as compared to net income of \$7.6 million during the comparable period in 2019.

## 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. 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 for development. We believe that our operating lease arrangements provide appropriate leverage of our capital structure in a financially efficient manner.

Our main requirements for liquidity are to support our working capital, restaurant expansion plans, ongoing maintenance of our existing restaurants, investment in infrastructure, obligations under our operating leases, interest payments on our debt, if any, and to repurchase 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. During the first quarter of 2020, and prior to the impact that

COVID-19 had on the Company's business operations, the Company repurchased approximately 90,000 shares of its common stock for a total of \$1.4 million. As of the end of the third quarter of 2020, the Company had \$28.6 million remaining under its \$30.0 million repurchase program that expires on December 31, 2022. As a result of COVID-19, the Company has temporarily suspended further share repurchase activity for the remainder of the year.

During the second quarter of 2020, the Company issued 3,041,256 shares of its common stock and received net proceeds of \$48.2 million after deducting sales agent commissions and offering expenses payable by the Company. A portion of the net proceeds was used to repay the \$25.0 million outstanding under the Company's revolving credit facility as of the end of the first quarter of 2020. The Company intends to use the remaining net proceeds from the ATM offering for general corporate purposes, including, but not limited to, increasing its liquidity as a result of the COVID-19 pandemic.

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.

As of September 27, 2020, the Company had a strong financial position with \$77.8 million in cash and cash equivalents, no debt and \$25.0 million of availability under its revolving credit facility. During the thirty-nine weeks ended September 27, 2020, the Company took the following measures to enhance its liquidity position in response to the uncertainty caused by the COVID-19 pandemic:

- Temporarily suspended any further activity under its share repurchase program;
- Utilized CARES act provisions to obtain tax savings as well as deferred its portion of social security taxes to future years;
- Negotiated rent abatements and concessions with its landlords in response to the COVID-19 pandemic.

Management believes that the Company's strong financial position and continued improvement in comparable restaurant sales, combined with the measures taken during the COVID-19 pandemic will allow the Company to meet its financial obligations for at least the next twelve months.

#### **Cash Flows for Thirty-Nine Weeks Ended September 27, 2020 and September 29, 2019**

The following table summarizes the statement of cash flows for the thirty-nine weeks ended September 27, 2020 and September 29, 2019 (in thousands):

	Thirty-Nine Weeks Ended	
	September 27, 2020	September 29, 2019
Net cash provided by operating activities	\$ 32,849	\$ 32,629
Net cash used in investing activities	(11,294)	(21,916)
Net cash provided by (used in) financing activities	46,146	(8,436)
Net increase in cash and cash equivalents	67,701	2,277
Cash and cash equivalents at beginning of year	10,074	8,199
Cash and cash equivalents at end of period	<u>\$ 77,775</u>	<u>\$ 10,476</u>

**Operating Activities.** Net cash provided by operating activities increased \$0.2 million to \$32.8 million for the thirty-nine weeks ended September 27, 2020 from \$32.6 million during the comparable period in 2019. 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.

**Investing Activities.** Net cash used in investing activities decreased \$10.6 million to \$11.3 million for the thirty-nine weeks ended September 27, 2020 from \$21.9 million during the comparable period in 2019. The decrease was primarily due to a cancellation of all non-essential capital expenditures and postponement of all new store development for the remainder of fiscal 2020.

**Financing Activities.** Net cash provided by financing activities increased by \$54.6 million to \$46.1 million for the thirty-nine weeks ended September 27, 2020 from net cash used in financing activities of \$8.4 million during the comparable period in 2019. The increase was primarily due to \$48.2 million in net proceeds received in the Company's ATM offering completed during the second quarter of 2020 and a \$6.4 million decrease in stock repurchases as compared to the same period last year.

As of September 27, 2020, 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, except as disclosed in Note 1, *Basis of Presentation — COVID-19 Pandemic* and Note 5, *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, except as disclosed in Note 1, *Basis of Presentation — COVID-19 Pandemic*, Note 5, *Long-Term Debt* and Note 9, *Leases*.

#### **Off-Balance Sheet Arrangements**

As of September 27, 2020, 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**

Certain statements in this quarterly report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We use words such as "anticipate," "expect," "believe," "intend," "estimate," "plans" and similar expressions, and variations or negatives of these words to identify 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 ultimate geographic spread, duration and severity of the COVID-19 pandemic, and the effectiveness of actions taken, or actions that may be taken, by governmental authorities to contain the outbreak or treat its impact;
- 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;
- acts of violence at or threatened against our restaurants or centers in which they 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 and restaurant closures;
- 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 impairment charges and closed restaurant costs 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, will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, 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;
- the risks described under the heading "Risk Factors" in this Quarterly Report on Form 10-Q for the quarter ended September 27, 2020; and
- other risks and uncertainties described from time to time in the Company's Annual Report and other 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**

There have been no 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 quarter ended September 27, 2020, 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**

None.

### **Item 1A. Risk Factors**

The COVID-19 pandemic has heightened, and in some cases manifested, certain of the risks we normally face in operating our business, including those disclosed in our Annual Report, and the risk factor disclosure in our Annual Report is qualified by the information relating to COVID-19 that is described in this Quarterly Report on Form 10-Q including the risk factor set forth below. There have been no other material changes from the risk factors previously disclosed in our Annual Report.

#### **COVID-19 has harmed our business and may continue to do so.**

During March 2020, the World Health Organization declared the COVID-19 outbreak to be a global pandemic and the United States declared a National Public Health Emergency. The COVID-19 pandemic has significantly impacted health and economic conditions throughout the United States. Federal, state and local governments took a variety of actions to contain the spread of COVID-19. Many jurisdictions where our restaurants are located required mandatory closures or imposed capacity limitations and other restrictions affecting our operations. During the third quarter of 2020, the Company has seen sequential improvement in comparable restaurant sales as state and local restrictions, while still in effect, were eased in many states, including Texas. As of September 27, 2020, the Company had reopened dining rooms at varying degrees of operating capacity in 92 of its 101 restaurants. Nine restaurants remain temporarily closed.

During the thirty-nine weeks ended September 27, 2020, the Company took various steps to reduce non-essential spend, postpone restaurant development and rightsize operations in light of reduced sales volume to improve our store level profitability and increase our cash flows. The Company also enhanced its liquidity position by:

- Completing its ATM offering by selling 3,041,256 shares of the common stock for net proceeds of \$48.2 million after deducting sales agent commissions and offering expenses payable the Company;
- Repaying the \$25.0 million outstanding under its revolving credit facility;
- Suspending all further activity under its share repurchase program;

- Utilized CARES act provisions to obtain tax savings as well as deferred its portion of social security taxes to future years; and
- Successfully negotiated rent abatements, concessions and deferrals with its landlords.

We cannot predict how soon we will be able to reopen all of our restaurants at full capacity, open new restaurants in the future or whether we will have to revert back to an off-premise only operating model at some or all of our restaurants. Our ability to continue to operate existing restaurant and open new restaurants in the future will depend in part on the actions of a number of governmental bodies over which we have no control. Moreover, once all restrictions are lifted, it is unclear how quickly customers will return to our restaurants, which may be a function of continued concerns over safety and/or depressed consumer sentiment due to adverse economic conditions, including job losses.

The COVID-19 pandemic has caused significant disruptions to our ability to generate revenue and cash flows, and uncertainty regarding the length of the disruption may adversely harm our ability to raise additional capital. The COVID-19 pandemic is adversely affecting the availability of liquidity generally in the credit markets, and there can be no guarantee that additional liquidity will be readily available or available on favorable terms, especially the longer the COVID-19 pandemic lasts. The equity markets in the United States have been extremely volatile due to the COVID-19 pandemic and our stock price has fluctuated significantly. Continued volatility in the equity markets and our stock price could negatively impact our ability to raise additional capital. The ultimate impact of the COVID-19 pandemic on our business, financial condition and results of operations will depend on our ability to have sufficient liquidity until such time as our restaurants can again generate revenue and profits capable of supporting our ongoing operations, all of which remain highly uncertain at this time.

Our suppliers could also be adversely impacted by the COVID-19 pandemic. If our suppliers' employees are unable to work, whether because of illness, quarantine, limitations of travel or other government restrictions in connection with COVID-19, we could face shortages of food items or other supplies at our restaurants and our operations and sales could be adversely harmed by such supply interruptions.

We could experience other potential impacts as a result of the COVID-19 pandemic that are not completely known at this time, including, but not limited to, charges from potential adjustments to the carrying amount of goodwill, indefinite-lived intangibles and long-lived asset impairment charges. Our actual results may differ materially from our current estimates as the scope of the COVID-19 pandemic evolves, depending largely though not exclusively on the duration of the disruption to our business.

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

None.

**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
<a href="#">10.1</a>	Chuy's Holdings, Inc. 2020 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on July 31, 2020)
<a href="#">10.2</a>	Form of Restricted Stock Unit Agreement (2020 Omnibus Incentive Plan)
<a href="#">31.1</a>	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">31.2</a>	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">32.1</a>	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	Inline XBRL Instance Document (The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

**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 6, 2020

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 and Accounting Officer)

**FORM OF  
RESTRICTED STOCK UNIT AGREEMENT  
UNDER THE  
CHUY'S HOLDINGS, INC. 2020 OMNIBUS INCENTIVE PLAN**

This Restricted Stock Unit Agreement (this “RSU Agreement”), dated as of [[GRANTDATE]] (the “Date of Grant”), is made by and between Chuy’s Holdings, Inc., a Delaware corporation (the “Company”) and [[FIRSTNAME]] [[MIDDLENAME]] [[LASTNAME]] (the “Participant”). Capitalized terms used without definition herein shall have the meaning ascribed to them in the Chuy’s Holdings, Inc. 2020 Omnibus Incentive Plan (the “Plan”). Where the context permits, references to the Company shall include any successor to the Company.

1. Grant of Restricted Stock Units. Pursuant to Section 10 of the Plan, the Company hereby grants to the Participant [[SHARESGRANTED]] restricted stock units (the “Restricted Stock Units”), subject to all of the terms and conditions of this RSU Agreement and the Plan. Each Restricted Stock Unit shall represent the right to receive one share of Common Stock on the Settlement Date (as defined below).
  2. Vesting of Restricted Stock Units. The Restricted Stock Units specified in Section 1 of this RSU Agreement shall vest as follows:
    - (a) Vesting. Subject to the provisions set forth below, and except to the extent set forth in Section 12 of the Plan, on each of the first four (4) anniversaries of the Date of Grant (each such date, a “Vesting Date”), a number of Restricted Stock Units equal to twenty-five percent (25%) multiplied by the number of Restricted Stock Units specified in Section 1 of this RSU Agreement will become nonforfeitable, subject in each case to the continued employment of the Participant by the Company or one of its Subsidiaries or Affiliates from the date hereof through the relevant Vesting Date, and provided that the Participant has not given notice of resignation or received a notice of termination, as of each such Vesting Date, subject to paragraph (b) of this Section 2. Subject to Section 6 of this RSU Agreement, each such Vesting Date shall be a Settlement Date under this RSU Agreement.
    - (b) Termination of Employment. Subject to Section 12 of the Plan, upon termination of the Participant’s employment with the Company and its Affiliates for any reason (including, but not limited to, the death or Disability of the Participant) any Restricted Stock Units that have not become nonforfeitable hereunder shall be immediately forfeited.
  3. Transfer of Awards. No purported sale, assignment, mortgage, hypothecation, transfer, charge, pledge, encumbrance, gift, transfer in trust (voting or other) or other disposition of, or creation of a security interest in or lien on, any of the Restricted Stock Units or any agreement or commitment to do any of the foregoing (each, a “Transfer”) by any holder thereof in violation of the provisions of this RSU Agreement will be valid. Any purported Transfer of Restricted Stock Units or any economic benefit or interest therein in violation of this RSU Agreement shall be null and void *ab initio*, and shall not create any obligation or liability of the Company, and any person purportedly acquiring any Restricted Stock Units or any economic benefit or interest therein transferred in violation
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of this RSU Agreement shall not be entitled to be recognized as a holder of such Restricted Stock Units. Without prejudice to the foregoing, in the event of a Transfer or an attempted Transfer in violation of this RSU Agreement, the Company shall have the right (in its sole discretion) to terminate the Restricted Stock Units which are the subject of the Transfer or attempted Transfer.

4. **Adjustments.** Pursuant to Section 5 of the Plan, in the event of a Change in Capitalization, the Administrator shall make such equitable changes or adjustments as it deems necessary or appropriate to the Restricted Stock Units, including, without limitation, the number of Restricted Stock Units.
5. **No Employment Contract.** Nothing contained in this RSU Agreement shall (a) confer upon the Participant any right to be employed by or remain employed by the Company or any Affiliate thereof, or (b) limit or affect in any manner the right of the Company or any Affiliate thereof to terminate the employment or adjust the compensation of the Participant.
6. **Settlement of Restricted Stock Units.** To the extent the Restricted Stock Units shall become nonforfeitable pursuant to Section 2(a) above, the shares of Common Stock underlying such Restricted Stock Units shall be transferred to the Participant no later than 30 days after the date on which the Restricted Stock Units become nonforfeitable (each such date, a “Settlement Date”), except as otherwise provided in Section 8 and unless otherwise deferred by the Participant in accordance with procedures established by the Company subject to the limitations of Section 409A of the Code.
7. **Dividend, Voting and Other Rights.** The Participant shall have no rights of ownership in the Restricted Stock Units and shall have no voting rights with respect to such Restricted Stock Units unless and until the date on which the shares of Common Stock transferred to the Participant pursuant to Section 6 above and a stock certificate, or a book-entry, representing such shares of Common Stock is issued, or credited, to the Participant. Dividend equivalents will be paid in cash on the shares of Common Stock underlying the Restricted Stock Units and shall be accumulated and deferred (with no earnings accruing) until, and paid contingent upon, the vesting of the related Restricted Stock Units and paid at the same time the underlying shares of Common Stock are transferred to the Participant.
8. **Retention of Restricted Stock Units by the Company.** The shares of Common Stock underlying the Restricted Stock Units shall be released to the Participant by the Company’s transfer agent at the direction of the Company. At such time as the Restricted Stock Units become payable as specified in Section 6 of this RSU Agreement, the Company shall direct the transfer agent to forward all such payable shares of Common Stock to the Participant; provided, however, that (a) the Company may withhold a number of shares of Common Stock with a Fair Market Value equal to the minimum amount the Company is then required to withhold for taxes and (b) the transfer agent will be directed to forward the remaining balance of shares of Common Stock after the amount necessary for such taxes has been deducted. The foregoing provisions of this Section 8 are in all events subject to Section 409A of the Code.
9. **Taxes and Withholding.** To the extent that the Company or any Affiliate thereof shall be required to withhold any federal, state, local or foreign taxes in connection with the

issuance or vesting of the Restricted Stock Units, and the amounts available to the Company or such Affiliate for such withholding are insufficient, the Participant shall pay such taxes or make provisions that are satisfactory to the Company for the payment thereof.

10. **Failure to Enforce Not a Waiver.** The failure of the Company to enforce at any time any provision of this RSU Agreement shall in no way be construed to be a waiver of such provision or of any other provision hereof.
11. **Severability.** In the event that one or more of the provisions of this RSU Agreement shall be invalidated for any reason by a court of competent jurisdiction, any provision so invalidated shall be deemed to be separable from the other provisions hereof, and the remaining provisions hereof shall continue to be valid and fully enforceable.
12. **Relation to Plan.** The Plan is hereby incorporated by reference into, and made a part of, this RSU Agreement, and the Restricted Stock Units and this RSU Agreement shall be subject to all terms and conditions of the Plan and this RSU Agreement. In the event of any inconsistency between the provisions of this RSU Agreement and the Plan, the provisions of the Plan shall govern.
13. **Successors and Assigns.** The provisions of this RSU Agreement shall inure to the benefit of, and be binding upon, the successors, administrators, heirs, legal representatives, and assigns of the Participant, and the successors and assigns of the Company.
14. **Securities Laws Requirements.** The Company shall not be obligated to issue Restricted Stock Units or Common Stock underlying such Restricted Stock Units to the Participant, if such transfer, in the opinion of counsel for the Company, would violate the Securities Act of 1933, as amended (the “Securities Act”), or any other federal or state statutes having similar requirements as may be in effect at that time.
15. **Delays.** Notwithstanding anything in the Plan or this RSU Agreement to the contrary, the Administrator shall have the right to suspend or delay any time period prescribed in the Plan or this RSU Agreement for any action if the Administrator shall determine that the action may constitute a violation of any law or result in any liability under any law to the Company, an Affiliate or a stockholder of the Company until such time as the action required or permitted will not constitute a violation of law or result in liability to the Company, an Affiliate or a stockholder of the Company.
16. **Governing Law.** The interpretation, performance, and enforcement of this Agreement shall be governed by the laws of the State of Delaware.
17. **Notices.** Any notice to the Company provided for herein shall be in writing to the Company, marked Attention: President, and any notice to the Participant shall be addressed to the Participant at his or her address on file with the Company. Any written notice required to be given to the Company shall be deemed to be duly given only when actually received by the Company.
18. **Clawback.** If, at any time, the Administrator, in its sole discretion, determines that any action or omission by the Participant constituted (a) wrongdoing that contributed to any material misstatement in or omission from any report or statement filed by the Company with the U.S. Securities and Exchange Commission, (b) intentional or gross misconduct, (c) a breach of a fiduciary duty to the Company or a Subsidiary thereof or (d) fraud, then

in each such case of (a) through (d), commencing with the first fiscal year of the Company during which such action or omission occurred, the Participant shall forfeit (without any payment therefor) up to 100% of any Restricted Stock Units that have not vested and shall repay to the Company, upon notice to the Participant by the Company, up to an amount equal to 100% of the Fair Market Value of the shares of Common Stock underlying such Restricted Stock Units that were delivered to the Participant, during and after such fiscal year. The Administrator shall determine, in its sole discretion, the date of occurrence of such action or omission, the percentage of the Restricted Stock Units that shall be forfeited and the percentage of the Fair Market Value of the shares of Common Stock underlying such Restricted Stock Units that must be repaid to the Company. This Section 18 is not intended to limit the Company's ability to pursue other means to recover damages resulting from wrongdoing and the Company retains all rights it may have under applicable law.

19. Amendment. Subject to the terms of the Plan, the Administrator may, at any time, revise or amend this RSU Agreement in any respect whatsoever. No such revision or amendment may, without the consent of a Participant, impair the Participant's rights under this RSU Agreement.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have executed and delivered this RSU Agreement on the day and year first above written.

**CHUY'S HOLDINGS, INC.:**

By: \_\_\_\_\_

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

[[FIRSTNAME]] [[MIDDLENAME]] [[LASTNAME]]:  
Participant

By: \_\_\_\_\_

**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: November 6, 2020

/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: November 6, 2020

/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 September 27, 2020, 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: November 6, 2020

/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)