UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 25, 2016
OR

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

Commission File No. 001-35603

CHUY'S HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**20-5717694**
(State of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1623 TOOMEY ROAD 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	Name of each exchange on which registered
Common Stock, par value $0.01 per share	Nasdaq Stock Market LLC

Securities registered pursuant to section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

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

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

As of June 24, 2016 (the last business day of our most recently completed second fiscal quarter), the aggregate market value of the registrant's common stock held by non-affiliates was approximately $577 million.

The number of shares of the registrant's common stock outstanding at February 28, 2017 was 16,844,785.

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Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements. These statements reflect the current views of our senior management with respect to future events and our financial performance. These statements include forward-looking statements with respect to our business and industry in general. Statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “forecast,” “estimate,” “may,” “should,” “anticipate” and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

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

- the success of our existing and new restaurants;
- our ability to identify appropriate sites and develop and expand our operations;
- changes in economic conditions;
- damage to our reputation or lack of acceptance of our brand in existing or new markets;
- our expansion into markets that we are unfamiliar with;
- economic and other trends and developments, including adverse weather conditions, in the local or regional areas in which our restaurants are located and specifically in Texas where a large percentage of our restaurants are located;
- the impact of negative economic factors, including the availability of credit, on our landlords and surrounding tenants;
- changes in food availability and costs;
- labor shortages and increases in our labor costs, including as a result of changes in government regulation, such as the adoption of the new federal health care legislation;
- food safety and food borne illness concerns;
- increased competition in the restaurant industry and the segments in which we compete;
- the impact of legislation and regulations regarding nutritional information, and new information or attitudes regarding diet and health or adverse opinions about the health of consuming our menu offerings;
- the impact of federal, state and local beer, liquor and food service regulations;
- the impact of litigation;
- the success of our marketing programs;
- the impact of new restaurant openings, including the effect on our existing restaurants when opening new restaurants in the same markets;
- the loss of key members of our management team;
- strain on our infrastructure and resources caused by our growth;
- the inadequacy of our insurance coverage and fluctuating insurance requirements and costs;
- the impact of our indebtedness on our ability to invest in the ongoing needs of our business;
- our ability to obtain debt or other financing on favorable terms or at all;
- the impact of a potential requirement to record asset impairment charges in the future;
- the impact of security breaches of confidential customer information in connection with our electronic processing of credit and debit card transactions;
- inadequate protection of our intellectual property;
- the failure of our information technology system or the breach of our network security;
- a major natural or man-made disaster;
- our increased costs and obligations as a result of being a public company;
- the impact of electing to take advantage of certain exemptions applicable to emerging growth companies;
- the failure of our internal control over financial reporting;

- the impact of federal, state and local tax laws;
- volatility in the price of our common stock;
- the impact of future sales of our common stock and the exercise of stock options and any additional capital raised by us through the sale of our common stock;
- the impact of a downgrade of our shares by securities analysts or industry analysts, the publication of negative research or reports, or lack of publication of reports about our business;
- the effect of anti-takeover provisions in our charter documents and under Delaware law;
- the effect of our decision to not pay dividends for the foreseeable future;
- the effect of changes in accounting principles applicable to us;
- our ability to raise capital in the future; and
- the conflicts of interest that may arise with some of our directors.

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. 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 Form 10-K reflect our views as of the date of this annual 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.

Basis of Presentation

We operate on a 52- or 53-week fiscal year that ends on the last Sunday of the calendar year. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter has 14 weeks. Our 2016, 2015 and 2014 fiscal years each consisted of 52 weeks. Fiscal years are identified in this annual report according to the calendar year in which the fiscal year ends. For example, references to “2016,” “fiscal 2016,” “fiscal year 2016” or similar references refer to the fiscal year endingDecember 25, 2016.

PART I

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 subsidiary.

ITEM 1. BUSINESS

General

Chuy’s is a fast-growing, full-service restaurant concept offering a distinct menu of authentic, freshly-prepared Mexican and Tex-Mex inspired food. We were founded in Austin, Texas in 1982 and, as of December 25, 2016, we operated 80 Chuy’s restaurants across 16 states, with an average unit volume of $4.6 million for our 61 comparable restaurants for the twelve months ended December 25, 2016. 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 are committed to providing value to our customers through offering generous portions of made-from-scratch, flavorful Mexican and Tex-Mex inspired dishes. We believe our employees are a key element of our culture and set the tone for a fun, family-friendly atmosphere with attentive service. 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 core menu was established using recipes from family and friends of our founders, and has remained relatively unchanged over the years. We offer the same menu during lunch and dinner, which includes enchiladas, fajitas, tacos, burritos, combination platters and daily specials, complemented by a variety of appetizers, soups and salads. Each of our restaurants also offers a variety of homemade sauces, including the signature Hatch green chile and creamy jalapeño sauces, all of which we make from scratch daily in each restaurant. These sauces are a key element of our offering and provide our customers with an added ability to customize their orders. Our menu offers considerable value to our customers, with our average check of $14.48 as of December 25, 2016, which is on the lower end of our casual dining peer group. We also offer a full-service bar in all of our restaurants providing our customers a wide variety of beverage offerings, featuring a selection of specialty cocktails including our signature on-the-rocks margaritas made with fresh, hand-squeezed lime juice and the Texas Martini, a made-to-order, hand-shaken cocktail served with jalapeño-stuffed olives. The bar represents an important aspect of our concept, where customers frequently gather prior to being seated. For the twelve months ended December 25, 2016, alcoholic beverages constituted 18.3% of our total restaurant sales.

We strive to create a unique and memorable customer experience at each of our locations. While the layout in each of our restaurants varies, we maintain distinguishable elements across our locations, including hand-carved, hand-painted wooden fish imported from Mexico, a variety of vibrant Mexican folk art, a “Nacho Car” that provides complimentary chips, salsa and chile con queso in the trunk of a classic car, vintage hubcaps hanging from the ceiling, colorful hand-made floor and wall tile and festive metal palm trees. Including patio space, our restaurants range in size from 5,300 to 12,200 square feet, with seating for approximately 225 to 400 customers. Nearly all of our restaurants feature outdoor patios. We design our restaurants to have flexible seating arrangements that allow us to cater to families and parties of all sizes. Our brand strategy of having an “unchained” look and feel allows our restaurants to establish their own identity and provides us with a flexible real estate model. Our site selection process is focused on conversions of existing restaurants as well as new ground-up prototypes in select locations. Our restaurants are open for lunch and dinner seven days a week. We serve approximately 6,100 customers per location per week or 316,000 customers per location per year, on average, by providing high-quality, freshly prepared food at a competitive price point. We believe that many of Chuy’s frequent customers visit one of our restaurants multiple times per week.

Our Business Strengths

Over our 34-year operating history, we have developed and refined the following strengths:

Fresh, Authentic Mexican and Tex-Mex Inspired Cuisine. Our goal is to provide unique, authentic Mexican and Tex-Mex inspired food using only the freshest ingredients. We believe we serve authentic Mexican and Tex-Mex inspired food based on our recipes, ingredients, cooking techniques and food pairings, which originated from our founders’ friends and families from Mexico, New Mexico and Texas. Every day in each restaurant, we roast and hand pull whole bone-in chicken breasts, hand roll fresh tortillas, squeeze fresh lime juice and prepare fresh guacamole from whole avocados. In addition, we make all nine to eleven of our homemade sauces daily using high-quality ingredients. We believe this commitment to made-from-scratch, freshly prepared cooking results in great tasting, high-quality food, a sense of pride among our restaurant employees and loyalty among our customers. Some of our kitchen managers travel to Hatch, New Mexico every summer to hand-select batches of our green chiles. We believe our commitment to serving high-quality food is also evidenced by serving only Choice quality beef and fresh ingredients. We believe our servers and kitchen staff are highly proficient in executing the core menu and capable of satisfying large quantities of custom orders, as the majority of our orders are customized.

Considerable Dining Value with Broad Customer Appeal. We are committed to providing value to our customers through offering generous portions of flavorful Mexican and Tex-Mex inspired dishes using fresh, high-quality ingredients. We believe our menu offers a considerable value proposition to our customers, with our average check of $14.48 as of December 25, 2016, which is on the lower end of our casual dining peer group. Through our training programs, we train our employees to make sure that each plate is prepared according to our presentation and recipe standards.

Although our core demographic is ages 21 to 44, we believe our restaurants appeal to a broad spectrum of customers and will continue to benefit from trends in consumers' preferences. We believe consumers are craving bold, spicy and flavorful foods, like those featured in our core offering. Additionally, we believe our brand appeals to a wide demographic and will continue to benefit from the growing demand for fresh, authentic Mexican and Tex-Mex inspired food and a fun, festive dining experience. We believe we are also an attractive venue for families and other large parties, and consider many of our restaurants to be destination locations, drawing customers from as far as 30 miles away. We locate our restaurants in high-traffic locations to attract primarily local patrons with limited reliance on business travelers.

Upbeat Atmosphere Coupled with Irreverent Brand Helps Differentiate Concept As stated in our motto "If you've seen one Chuy's, you've seen one Chuy's!" each of our restaurants is uniquely designed. However, most share a few common elements—hand-carved, hand-painted wooden fish, vintage hubcaps hanging from the ceiling, colorful hand-made floor and wall tile, palm trees hand-crafted from scrap metal and a variety of colorful Mexican folk art. Much of this décor, including all of the wooden fish and painted tiles, is sourced from vendors in Mexican villages that have partnered with us for decades. Additionally, virtually all restaurants feature a complimentary self-serve "Nacho Car," a hollowed-out, customized classic car trunk filled with fresh chips, salsa, chile con queso and more.

We believe these signature elements, combined with attentive service from our friendly and energetic employees create an upbeat ambience with a funky, eclectic and somewhat irreverent atmosphere. Our restaurants feature a fun mix of rock and roll rather than traditional Mexican-style music, which we believe helps to provide an energetic customer experience. We also believe that each restaurant reflects the character and history of its individual community. Many of our restaurants have added unique, local elements such as a special wall of photos featuring customers with their friends, families and dogs. We believe this has allowed our customers to develop a strong sense of pride and ownership in their local Chuy's.

Deep Rooted and Inspiring Company Culture. 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 restaurant experience. Since our founding in 1982, we believe we have developed close personal relationships with our customers, employees and vendors. We emphasize a fun, passionate and authentic culture and support active social responsibility and involvement in local communities. We regularly sponsor a variety of community events including our annual Chuy's Children Giving to Children Parade and other local charitable events. We believe our employees and customers share a unique energy and passion for our concept. We believe these characteristics contribute to our favorable annual employee turnover rate at our comparable restaurants and our goal of promoting 40% of restaurant-level managers from within, as well as our solid base of repeat customers.

In order to retain our unique culture as we grow, we invest significant time and capital into our training programs. We devote substantial resources to identifying, selecting and training our restaurant-level employees. We typically have ten in-store trainers at each existing location who provide both front- and back-of-the-house training on site as well as two training coordinators that lead new restaurant training. We also have an approximately 20-week training program for all of our restaurant managers, which consists of an average of 11 weeks of restaurant training and eight to nine weeks of "cultural" training, in which managers observe our established restaurants' operations and customer interactions. We believe our focus on cultural training is a core aspect of our Company and reinforces our commitment to the Chuy's brand identity. In conjunction with our training activities, we hold "Culture Clubs" four times or more per year, as a means to fully impart the Chuy's story through personal appearances by our founders.

Flexible Business Model with Industry Leading Unit Economics. We have a long standing track record of consistently producing high average unit volumes relative to competing Mexican concepts, as well as established casual dining restaurants. For the twelve months ended December 25, 2016, our comparable restaurants generated average unit volumes of $4.6 million, with our highest volume comparable restaurant generating approximately $9.1 million. We have opened and operated restaurants in Texas, the Southeast and the Midwest and achieved attractive rates of return on our invested capital, providing a strong foundation for expansion in both new and existing markets. Under our investment model, our new restaurant openings have historically required a net cash investment of approximately $2.2 million. For our new unit openings, we estimate the cost of a conversion or ground-up buildout will require a total cash investment of $1.9 million to $2.5 million (net of estimated tenant incentives of between zero and $1.0 million). We currently target a cash-on-cash return beginning in the third operating year of 30.0%, and a sales to investment ratio of 1.9:1.

Experienced Management Team. We are led by a management team with significant experience in all aspects of restaurant operations. Our senior management team has an average of approximately 32 years of restaurant experience and our 81 general managers, as of December 25, 2016, have an average tenure at Chuy's of approximately 6 years. In 2007, we hired our CEO and President, Steve Hislop. Mr. Hislop is the former President of O'Charley's Restaurants, where he spent 19 years performing a variety of functions, including serving as Concept President and a member of the board of directors, and helped grow the business from 12 restaurants to a multi-concept company with 347 restaurants during his tenure. Since Mr. Hislop's arrival in 2007, we have accelerated our growth plan and opened 74 new restaurants, net of relocation, as of February 28, 2017, and entered 15 new states.

Our Business Strategies

Pursue New Restaurant Development. We plan to identify and pursue major markets for expansion, where we believe we can achieve high unit volumes and attractive unit level returns, while at the same time backfilling in our existing markets to continue to build brand awareness. We believe the broad appeal of the Chuy's concept, historical unit economics and flexible real estate strategy enhance the portability of our concept and provide us opportunity for continued expansion. Currently, our new restaurant development primarily consists of ground up construction and conversions of existing structures.

We have built a scalable infrastructure and have grown our restaurant base through a challenging economic environment. In 2014, we opened eleven restaurants with a focus on backfilling existing markets. We opened ten new restaurants in 2015, four in new markets and six backfilling existing markets. We opened twelve new restaurants in 2016, one in a new market and eleven backfilling existing markets. Our restaurants opened since 2001 that have been in operations for more than three years have generated average cash-on-cash returns of more than 30.0% in the third year of operations. During 2017, we have opened two restaurants as of February 28, 2017, and plan to open a total oftwelve to fourteen restaurants for the year. Over the next three to five years, we expect to double our restaurant base.

Deliver Consistent Comparable Restaurant Sales Through Providing High-Quality Food and Service We believe we will be able to generate comparable restaurant sales growth by consistently providing an attractive price/value proposition for our customers with excellent service in an upbeat atmosphere. We remain focused on delivering freshly prepared, authentic, high-quality Mexican and Tex-Mex inspired cuisine at a considerable value to our customers. Though the core menu will remain unchanged, we will continue to explore potential additions as well as limited time food and drink offerings. Additionally, we will continue to promote our brand and drive traffic through local marketing efforts and charity events such as the Chuy's Children Giving to Children Parade, as well as our line of eclectic t-shirts.

We prioritize customer service in our restaurants, and will continue to invest significantly in ongoing training of our employees. In addition to our new manager training program and at least quarterly "Culture Clubs," 20 to 24 of our trainers are dispatched to open new restaurants and ensure a solid foundation of customer service, food preparation and our cultured environment. We believe these initiatives will help enhance customer satisfaction, minimize wait times and help us serve our customers more efficiently during peak periods, which we believe is particularly important at our restaurants that operate at or near capacity.

Leverage Our Infrastructure. In preparation for our new restaurant development plan, we have made investments in our infrastructure over the past several years. We believe we now have the corporate and restaurant-level supervisory personnel in place to support our growth plan for the foreseeable future without significant additional investments in infrastructure. Therefore, we believe that as the restaurant base grows, our general and administrative costs will increase at a slower growth rate than our revenue. Additionally, we foresee relatively minimal increases in marketing expenses as we enter new markets, as the majority of our marketing is done through non-traditional channels such as community events, charity sponsorships, social media and word-of-mouth from our devoted followers, as well as partnerships with local public relations firms.

Real Estate

As of February 28, 2017, we leased 92 locations, of which 78 are free-standing restaurants and 14 are end-cap or in-line restaurants in Class A locations. Of these locations, ten are scheduled to open by the end of 2017. End-cap restaurants are highly visible locations at one of the ends of a retail development whereas in-line restaurants are locations that are between multiple retail locations within a development. Class A locations are upscale properties with easily identifiable locations and convenient access that are surrounded by other upscale properties. Including patio space, our restaurants range in size from approximately 5,300 to 12,200 square feet, averaging approximately 8,800 square feet with seating capacity for approximately 225 to 400 customers. Since the beginning of 2008 through February 28, 2017, we have opened 74 new restaurants, net of relocation. Since our inception in 1982, we have only moved three locations and closed four locations. In 2016, we closed and moved our Charlotte, North Carolina, our first closure or relocation since 2004. All of our leases provide for base (fixed) rent, plus the majority provide for additional rent based on gross sales (as defined in each lease agreement) in excess of a stipulated amount, multiplied by a stated percentage. A significant percentage of our leases also provide for periodic escalation of minimum annual rent either based upon increases in the Consumer Price Index or a pre-determined schedule. Typically, the initial lease terms of our leases are 10 or 15 years in length with 2 to 4, 5-year extension options. The initial terms of our leases currently expire between 2017 and 2036. We are also generally obligated to pay certain real estate taxes, insurances, common area maintenance charges and various other expenses related to the properties. Our corporate headquarters is also leased and is located at 1623 Toomey Road, Austin, Texas 78704.

Site Selection Process

We have developed a targeted site acquisition and qualification process incorporating management's experience as well as extensive data collection, analysis and interpretation. We are actively developing restaurants in both new and existing markets, and we will continue to expand in selected regions throughout the U.S. Our Director of Real Estate and Development works with a master broker who is responsible for identifying and working with local brokers to conduct preliminary research regarding possible development locations. This master broker also assists in site selection and market research. The preliminary research includes an analysis of traffic patterns, parking, access, demographic characteristics, population density, hotel occupancy, major employers, restaurant sales, level of affluence, consumer attitudes or preferences and current or expected co-retail and restaurant tenants. Our Director of Real and Estate Development and the master broker then present potential sites to our Vice President of Real Estate and Development. If our financial criteria for the site are satisfied, our Vice Presidents of Operations and Chief Executive Officer visit the site and our management negotiates the lease. The key criteria we have for a site is that the population within a three mile radius of the restaurant has a high concentration of our target demographic, which is persons ages 21 to 44 and persons with median income ranges in excess of $60,000 per year that dine out frequently. We also prefer locations with high visibility, especially in a new market, and ample surface parking spaces.

We seek to identify sites that contribute to our "If you've seen one Chuy's, you've seen one Chuy's" vision, meaning no two restaurants are alike. As we do not have standardized restaurant requirements with respect to size, location or layout, we are able to be flexible in our real estate selection process. In line with this strategy, we prefer to identify a combination of conversion sites as well as ground-up prototypes.

Design

After identifying a lease site, we commence our restaurant buildout. We strive to create a unique and memorable customer experience at each of our locations. While the layout in each of our restaurants varies, we maintain certain distinguishable elements across virtually all locations – hand-carved, hand-painted wooden fish imported from Mexico, a variety of vibrant Mexican folk art, a "Nacho Car" that provides complimentary chips, salsa and chile con queso in the trunk of a classic car, vintage hubcaps hanging from the ceiling, colorful hand-made floor and wall tile and festive metal palm trees. Nearly all of our restaurants feature outdoor patios. Additionally, our flexible seating arrangements allow us to cater to families and parties of all sizes including larger groups, which we believe is a key differentiator from other casual dining operators.

Our new restaurants are either ground-up prototypes or conversions. For our new unit openings, we estimate the cost of a conversion or ground-up buildout will require a total cash investment of $1.9 million to $2.5 million (net of estimated tenant incentives of between zero and $1.0 million). The flexibility of our concepts has enabled us to open restaurants in a wide variety of locations, including high-density residential areas and near shopping malls, lifestyle centers and other high-traffic locations. On average, it takes us approximately 12 to 18 months from identification of the specific site to opening the doors for business. In order to maintain consistency of food and customer service as well as the unique atmosphere at our restaurants, we have set processes and timelines to follow for all restaurant openings.

The development and construction of our new sites is the responsibility of our real estate and development team. Several project managers are responsible for building the restaurants, and several staff members manage purchasing, budgeting, scheduling and other related administrative functions.

New Restaurant Development

We have opened 74 new locations, net of relocation, since the beginning of 2008 through February 28, 2017 and our management believes we are well-positioned to continue this growth through our new restaurant pipeline, which includes locations currently under development. We maintain a commitment to capitalizing on opportunities and realizing efficiencies in our existing markets while also pursuing attractive locations in new markets. We seek to identify new markets in which we believe there is capacity for us to open multiple restaurants. Over the next three to five years, we expect to double our restaurant base.

Restaurant Operations

We currently have eighteen supervisors that report directly to our three Director of Operations and Vice President of Operations who in turn reports to our Chief Executive Officer. Each supervisor oversees an average of approximately four to six restaurants. The staffing at our restaurants typically consists of a general manager, a kitchen manager and three to five assistant managers. In addition, each of our restaurants employs approximately 100 hourly employees.

Sourcing and Supply

We rely on two regional distributors, Labatt Foodservice ("Labatt") in Texas, Oklahoma and Louisiana, and Performance Food Group ("PFG") in the rest of the United States, and various suppliers to provide our beef, cheese, beans, soybean oil, beverages and our groceries. Our distributors deliver supplies to each restaurant two to three times each week. Our distributor relationships with Labatt and PFG have been in place for approximately fourteen and four years, respectively, and the distributors cover 38 and 44 locations, respectively, as of February 28, 2017. For our chicken products, we rely on two suppliers, one supplier for our

Southeast locations and one supplier for Texas, Oklahoma and Louisiana. For our green chiles, we contract to buy through two suppliers located in New Mexico. Each restaurant, through its general manager and kitchen manager, purchases its produce locally. Changes in the price or availability of certain food products could affect the profitability of certain food items, our ability to maintain existing prices and our ability to purchase sufficient amounts of items to satisfy our customers' demands.

We are currently under contract with our principal non-alcoholic beverage provider through 2018. Our ability to arrange national distribution of alcoholic beverages is restricted by state law; however, where possible, we negotiate directly with spirit companies and/or regional distributors. We also contract with a third-party provider to source our cooking oil.

Food Safety

Providing a safe and clean dining experience for our customers is essential to our mission statement. We have taken steps to control food quality and safety risks, including implementing a training program for our kitchen staff, employees and managers focusing on food safety and quality assurance. In addition, to minimize the risk of food-borne illness, we have implemented a Hazard Analysis and Critical Control Points ("HACCP") system for managing food safety and quality. We also consider food safety and quality assurance when selecting our distributors and suppliers. Our suppliers are inspected by federal, state and local regulators or other reputable, qualified inspection services, which helps ensure their compliance with all federal food safety and quality guidelines.

Building Our Brand

We believe our restaurants appeal to a broad spectrum of customers due to our freshly-prepared food offering, attentive service and festive dining experience. Our target demographic is persons ages 21 to 44 and persons with median income ranges in excess of$60,000 per year that dine out frequently. We aim to build our brand image and awareness while retaining local neighborhood relationships by increasing the frequency of visits by our current customers and attracting new customers. We primarily foster relationships with local schools, chambers of commerce, businesses and sports teams through hosting tasting events and partnering in and sponsoring local charity events. Our marketing strategy also focuses on generating significant brand awareness at new restaurant openings.

Local Brand Building

A key aspect of our local restaurant marketing/branding strategy is developing community relationships with residents, local schools, hotels and chambers of commerce. Our restaurant managers are closely involved in developing and implementing the majority of our local restaurant marketing/branding programs.

Since our founding in 1982, Chuy's success has stemmed from close personal relationships with our customers, employees and vendors. We believe the Chuy's culture, which emphasizes fun and authenticity while fostering social responsibility and involvement in local communities, is one of our most valuable assets, and we are committed to preserving and continually investing in it.

We regularly hold a variety of community events. During the winter holidays, we sponsor the Chuy's Children Giving to Children Parade, which collects toys for Operation Blue Santa in Austin, Texas. Operation Blue Santa gives gifts and holiday meals to families in need in Central Texas. We participate in and sponsor several community events across all of our locations, specifically focusing on helping children's charities. For example, we participate in the Give Kids the World mAAgic event in Orlando, Florida, the Youth for Tomorrow Golf Classic in Northern Virginia, and the Camp Sunshine Fall Festival in Atlanta, Georgia. To celebrate one of our signature ingredients, the Hatch green chile, we hold an annual Green Chile Festival in all of our restaurants during the August and September harvest, with special menu items featuring Hatch chiles and promotional give-aways.

New Restaurant Openings

We have developed a marketing/branding strategy that we use in connection with new restaurant openings to help build local brand recognition and create a "buzz." In new markets, we generally host a pre-opening party called a "Redfish Rally" after our emblematic redfish for our social media fans, influencers from the local community and food bloggers experiencing Chuy's for the first time. During our "Redfish Rallies", we serve our food and margaritas and give away free Chuy's merchandise. In addition to the "Redfish Rallies", we employ a variety of pre-opening marketing initiatives such as issuing press releases, delivering free food to local businesses highlighting our defining differences, using social media channels, hosting a dog event to collect pictures for our famous "dog wall" and to collect money to benefit a local pet charity and food tasting through training lunches and dinners with local residents, media, community leaders and businesses.

We use the pre-opening period for our new restaurants as an opportunity to reach out to various media outlets as well as the local community. For our new and expanding markets outside of Texas, we retain local public relations partners to assist us with addressing the local market, establishing relationships with local charities, meeting local community leaders, identifying events for Chuy's to be a part of and gaining brand recognition.

Social Media & E-Marketing

We have increased our use of social media and e-marketing tools, which enables us to reach a significant number of people in a timely and targeted fashion at a fraction of the cost of traditional media. We believe our customers are generally frequent Internet users and will use social media to share dining experiences. At a corporate and local restaurant level we utilize social media outlets such as Facebook, Twitter and Instagram to promote our brand and engage with our guests. We also have a mailing list for each location that allows us to send customers updates about events at their local Chuy's.

Training and Employee Programs

We devote significant resources to identifying, selecting and training restaurant-level employees, with an approximately 20-week training program for all of our restaurant managers that includes an average of 11 weeks of restaurant training and eight to nine weeks of "cultural" training, in which managers observe our established restaurants' operations and customer interactions. We conduct comprehensive training programs for our management, hourly employees and corporate personnel. Our training program covers leadership, team building, food safety certification, alcohol safety programs, customer service philosophy training, sexual harassment training and other topics. In conjunction with our training activities, we hold "Culture Clubs" four times or more per year, as a means to fully impart the Chuy's story through personal appearances by our founders.

Our training process in connection with opening new restaurants has been refined over the course of our experience. Trainers oversee and conduct both service and kitchen training and are on site through the first two weeks of opening and remain on site for two to three additional weeks as needed and depending on unit volumes during the initial weeks. We have one front- and one back-of-the-house training coordinator, and these training coordinators remain on-site to manage the opening for approximately the same period as our other trainers. The lead and other trainers assist in opening new locations and lend support and introduce our standards and culture to the new team. We believe that hiring the best available team members and committing to their training helps keep retention high during the restaurant opening process.

Management Information Systems

In fiscal 2016, we started the implementation of a new point-of-sale system and we expect all of our restaurants to be fully migrated by the end of fiscal 2017. Our point-of-sale processing in our restaurants includes payment of obligations, collection of cash, credit and debit card transactions and other processes and procedures. This software communicates directly with our corporate headquarters and provides headquarters with near real-time information about restaurant level performance and sales. We use an enterprise back office software program, Restaurant Magic, in all of our locations. This program compiles our sales, accounts payable, payroll, inventory and purchasing information and communicates that information to our headquarters to provide visibility on restaurant level operations.

Government Regulation

We are subject to numerous federal, state and local laws affecting our business. Each of our restaurants is subject to licensing and regulation by a number of government authorities, which may include alcoholic beverage control, nutritional information disclosure, health, sanitation, environmental, zoning and public safety agencies in the state or municipality in which the restaurant is located.

For the twelve months ended December 25, 2016, 18.3% of our total restaurant sales were attributable to alcoholic beverages. Alcoholic beverage control regulations require each of our restaurants to apply to a state authority and, in certain locations, county and municipal authorities, for licenses and permits to sell alcoholic beverages on the premises. Typically, licenses must be renewed annually and may be subject to penalties, temporary suspension or revocation for cause at any time. Alcoholic beverage control regulations impact many aspects of the daily operations of our restaurants, including the minimum ages of patrons and staff members consuming or serving these beverages, respectively; staff member alcoholic beverage training and certification requirements; hours of operation; advertising; wholesale purchasing and inventory control of these beverages; the seating of minors and the servicing of food within our bar areas; special menus and events, such as happy hours; and the storage and dispensing of alcoholic beverages. State and local authorities in many jurisdictions routinely monitor compliance with alcoholic beverage laws. We are subject to "dram shop" statutes in most of the states in which we operate, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person.

Various federal and state labor laws govern our operations and our relationships with our staff members, including such matters as minimum wages, breaks, overtime, fringe benefits, safety, working conditions and citizenship or work authorization requirements. We are also subject to the regulations of the U.S. Citizenship and Immigration Services and U.S. Customs and Immigration Enforcement. In addition, some states in which we operate have adopted immigration employment laws which impose additional conditions on employers. Even if we operate our restaurants in strict compliance with the laws, rules and regulations of these federal and state agencies, some of our staff members may not meet federal citizenship or residency requirements or lack appropriate work authorizations, which could lead to a disruption in our work force. Significant government-imposed increases in minimum wages, paid or unpaid leaves of absence, sick leave, and mandated health benefits, or increased tax reporting, assessment or payment requirements related to our staff members who receive gratuities, could be detrimental to the profitability of our restaurants operations. Further, we continue to assess the impact of federal health care legislation on our health care benefit costs. Our distributors and suppliers also may be affected by higher minimum wage and benefit standards, which could result in higher costs for goods and services supplied to us. In addition, while we carry employment practices insurance covering a variety of labor-related liability claims, a settlement or judgment against us that is uninsured or in excess of our coverage limitations could have a material adverse effect on our results of operations, liquidity, financial position or business.

We are or may become subject to laws and regulations requiring disclosure of calorie, fat, trans-fat, salt and allergen content. Several states and local jurisdictions have adopted or are considering various food and menu nutritional labeling requirements, many of which are inconsistent or are interpreted differently from one jurisdiction to another and many of which may be superseded by the new federal regulations under the Patient Protection and Affordable Care Act of 2010 ("PPACA") which are scheduled to go into effect on May 5, 2017. The PPACA federal legislation requires chain restaurants with 20 or more locations in the United States to comply with federal nutritional disclosure requirements. However, future regulatory action may result in changes to the federal nutritional disclosure requirements. For additional information, see “Risk Factors - Legislation and regulations requiring the display and provision of nutritional information for our menu offerings, and new information or attitudes regarding diet and health or adverse opinions about the health effects of consuming our menu offerings, could affect consumer preferences and negatively impact our results of operations.” While we believe our ability to adapt to consumer preferences is a strength of our concept, the effect of such labeling requirements on consumer choices, if any, is unclear at this time.

There is also a potential for increased regulation of food in the United States, such as the recent changes in the HACCP system requirements. HACCP refers to a management system in which food safety is addressed through the analysis and control of potential hazards from production, procurement and handling, to manufacturing, distribution and consumption of the finished product. Many states have adopted legislation or implemented regulations which require restaurants to develop and implement HACCP Systems. Similarly, the United States Congress and the FDA continue to expand the sectors of the food industry that must adopt and implement HACCP programs. For example, the Food Safety Modernization Act (the “FSMA”) was signed into law in January 2011 and significantly expanded FDA’s authority over food safety. Among other requirements, the FSMA granted the FDA with authority to proactively ensure the safety of the entire food system, including through new and additional hazard analysis, food safety planning, increased inspections, and permitting mandatory food recalls. Although restaurants are specifically exempted from some of the requirements outlined in the FSMA and not directly implicated by other requirements, we anticipate that some of the FSMA provisions and FDA’s implementation of the requirements may impact our industry. We cannot assure you that we will not have to expend additional time and resources to comply with new food safety requirements either required by the FSMA or future federal food safety regulation or legislation. Additionally, our suppliers may initiate or otherwise be subject to food recalls that may impact the availability of certain products, result in adverse publicity or require us to take actions that could be costly for us or otherwise harm our business.

We are subject to a variety of federal and state environmental regulations concerning the handling, storage and disposal of hazardous materials, such as cleaning solvents, and the operation of restaurants in environmentally sensitive locations may impact aspects of our operations. During fiscal 2016, there were no material capital expenditures for environmental control facilities, and no such expenditures are anticipated.

Our facilities must comply with the applicable requirements of the Americans with Disabilities Act of 1990 (“ADA”) and related federal and state statutes. The ADA prohibits discrimination on the basis of disability with respect to public accommodations and employment. Under the ADA and related federal and state laws, we must make access to our new or significantly remodeled restaurants readily accessible to disabled persons. We must also make reasonable accommodations for the employment of disabled persons.

We have a significant number of hourly restaurant staff members who receive income from gratuities. We rely on our staff members to accurately disclose the full amount of their tip income and we base our FICA tax reporting on the disclosures provided to us by such tipped employees.

Intellectual Property

We believe that having distinctive marks that are registered and readily identifiable is an important factor in identifying our brand and differentiating our brand from our competitors. We currently own registrations from the United States Patent and Trademark Office (“USPTO”) for the following trademarks: Chuy’s; Chuy’s Mil Pescados Bar (stylized lettering); Chuy’s Green Chile Festival; Fish with sunglasses (our emblematic fish design); and Chuy’s Children Giving to Children Parade, which we have the right to use under our Parade Sponsorship agreement. We have also registered our chuys.com domain name. However, as a result of our settlement agreement with an unaffiliated entity, Baja Chuy’s, we may not use “Chuy’s” in Nevada, California or Arizona. An important part of our intellectual property strategy is the monitoring and enforcement of our rights in markets in which our restaurants currently exist or markets which we intend to enter in the future. We also monitor trademark registers to oppose the applications to register confusingly similar trademarks or to limit the expansion of the scope of goods and services covered by existing similar trademarks. We enforce our rights through a number of methods, including the issuance of cease-and-desist letters or making infringement claims in federal court.

Restaurant Industry Overview

According to the National Restaurant Association (the “NRA”), U.S. restaurant industry sales in 2016 were $766 billion and expected to grow 4.3% to $799 billion in 2017. The $799 billion in sales in 2017 is composed of 92.2% commercial restaurant services and 7.8% noncommercial and military restaurant services, which include food service for hospitals, transportation services, schools and other noncommercial outlets. These sales are expected to be generated by approximately 14.7 million restaurant industry employees. According to the NRA, restaurant industry sales in the states in which we operate are expected to be approximately $263.4 billion in 2017 with average sales growth of approximately 4.4%.

We believe we are well positioned to benefit from several fundamental trends in the restaurant industry and U.S. population. The NRA estimated that 48% of total U.S. food expenditures were spent at restaurants. Analysts believe that purchases of “food away from home” are attributable to demographic, economic and lifestyle trends, including the rise in the number of women in the workplace, an increase in average household income, an aging U.S. population and an increased willingness by consumers to pay for the convenience of meals prepared outside of their homes. Real disposable personal income, a key driver of restaurant industry sales, increased by a projected 2.8% in 2016 and 3.5% 2015, respectively. We cannot provide assurance that we will benefit from the aforementioned demographic trends.

According to the U.S. Census Bureau, the Hispanic population is projected to be the fastest growing demographic in the U.S., more than doubling in size from 56.8 million people in 2015 to 119.0 million people by 2060. During this time, the Hispanic population’s share of the nation’s total population is projected to increase from approximately 18% to 29%. We believe the projected growth in the Hispanic population will result in an increase in demand for Mexican/Hispanic foods. We cannot provide assurance that we will benefit from these long-term demographic trends, although we believe the Hispanic influence on dining trends will continue to grow in tandem with the population growth.

Competition

The restaurant business is intensely competitive with respect to food quality, price/value relationships, ambience, service and location, and is affected by many factors, including changes in consumer tastes and discretionary spending patterns, macroeconomic conditions, demographic trends, weather conditions, the cost and availability of raw materials, labor and energy and government regulations. Our main competitors are full service concepts in the multi-location, casual dining segment in which we compete most directly for real estate locations and customers, including Texas Roadhouse, Cheddar’s Scratch Kitchen and BJ’s Restaurants. We also compete with other providers of Tex-Mex and Mexican fare and adjacent segments, including casual and fast casual segments. We believe we compete favorably for consumers on our food quality, price/value and unique ambience and experience of our restaurants.

Seasonality

Our business is subject to seasonal fluctuations with restaurant sales typically higher during the spring and summer months. Adverse weather conditions during our most favorable months or periods may affect customer traffic. In addition, at nearly all of our restaurants we have outdoor seating, and the effects of adverse weather may impact the use of these areas and may negatively impact our revenues.

Employees

As of December 25, 2016, we had approximately 8,200 employees, including 85 corporate management and staff personnel, 600 restaurant level managers and 7,500 hourly employees. None of our employees are unionized or covered by a collective bargaining agreement. We believe that we have good relations with our employees.

Company Information

Our principal executive office is located at 1623 Toomey Road, Austin, Texas 78704 and our telephone number is 1-888-HEY-CHUY. Our website address is www.chuys.com. The information on our website is not incorporated by reference into this report.

The Company’s annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports are available free of charge on the Company’s website as soon as reasonably practicable after such material is electronically filed with, or furnished to, the Securities and Exchange Commission ("SEC"). In addition, copies of the Company’s annual report will be made available, free of charge, on written request.

ITEM 1A. RISK FACTORS

In evaluating our Company, you should consider carefully the following risk factors and the other information in this report, including our consolidated financial statements and related notes to those statements. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected.

Risks Relating to Our Business and Industry

Our financial results depend significantly upon the success of our existing and new restaurants.

Future growth in our revenues and profits will depend on our ability to develop profitable new restaurants, maintain or grow sales and efficiently manage costs in our existing and new restaurants. As of December 25, 2016, we operated 80 restaurants, of which 19 restaurants are not considered comparable. The results achieved by these restaurants may not be indicative of longer-term performance or the potential market acceptance of restaurants in other locations.

The success of our restaurants revolves principally around customer traffic and average check per customer and customer experience. Significant factors that might adversely affect the average customer traffic and average check include, without limitation:

- declining economic conditions, including housing market downturns, rising unemployment rates, lower disposable income, credit conditions, fuel prices and consumer confidence and other events or factors that adversely affect consumer spending in the markets we serve;
- increased competition in the restaurant industry, particularly in the Mexican cuisine and casual and fast-casual dining segments;
- changes in consumer preferences;
- customers' budgeting constraints;
- customers' failure to accept menu price increases that we may make to offset increases in key operating costs;
- our reputation and consumer perception of our concepts' offerings in terms of quality, price, value, ambiance and service; and
- customer experiences from dining in our restaurants.

Our restaurants are also susceptible to increases in certain key operating expenses that are either wholly or partially beyond our control, including, without limitation:

- food and other raw materials costs, many of which we do not or cannot effectively hedge;
- labor costs, including wage, workers' compensation and other benefits expenses;
- rent expenses and construction, remodeling, maintenance and other costs under leases for our new and existing restaurants;
- compliance costs as a result of changes in regulatory or industry standards;
- energy, water and other utility costs;
- costs for insurance (including health, liability and workers' compensation);
- information technology and other logistical costs; and
- expenses due to litigation against us.

Certain of our restaurants operate at or near capacity. As a result, we may be unable to grow or maintain same store sales at those restaurants, particularly if additional restaurants are opened near the existing location. The failure of our existing or new restaurants to perform as expected could have a significant negative impact on our financial condition and results of operations.

Our long-term success is highly dependent on our ability to successfully identify appropriate sites and develop and expand our operations in existing and new markets.

We intend to develop new restaurants in our existing markets, and selectively enter into new markets. Since the start of 2008, we have expanded from 8 to 80 restaurants as of December 25, 2016. We have opened two restaurants as of February 28, 2017 and plan to open a total of twelve to fourteen restaurants for the year. There can be no assurance that any new restaurant that we open will have similar operating results to those of existing restaurants. We may not be able to open our planned new restaurants on a timely basis, if at all, and, if opened, these restaurants may not be operated profitably. The number and timing of new restaurants opened during any given period, and their associated contribution to operating growth, may be negatively impacted by a number of factors including, without limitation:

- identification and availability of appropriate locations that will drive high levels of customer traffic and sales per unit;
- inability to generate sufficient funds from operations or to obtain acceptable financing to support our development;
- recruitment and training of qualified operating personnel in the local market;
- availability of acceptable lease arrangements, including sufficient levels of tenant allowances;

- the financial viability of our landlords, including the availability of financing for our landlords and our landlords ability to pay tenant incentives on a timely basis;
- construction and development cost management;
- timely delivery of the leased premises to us from our landlords and punctual commencement of our buildout construction activities;
- delays due to the customized nature of our restaurant concepts and decor, construction and pre-opening processes for each new location;
- obtaining all necessary governmental licenses and permits, including our liquor licenses, on a timely basis to construct or remodel and operate our restaurants;
- inability to comply with certain covenants under our revolving credit facility (the "Revolving Credit Facility") that could limit our ability to open new restaurants;
- consumer tastes in new geographic regions and acceptance of our restaurant concept;
- competition in new markets, including competition for restaurant sites;
- unforeseen engineering or environmental problems with the leased premises;
- adverse weather during the construction period;
- anticipated commercial, residential and infrastructure development near our new restaurants; and
- other unanticipated increases in costs, any of which could give rise to delays or cost overruns.

We have experienced, and expect to continue to experience, delays in restaurant openings from time to time. Such actions may limit our growth opportunities. We cannot assure you that we will be able to successfully expand or acquire critical market presence for our brand in new geographical markets, as we may encounter well-established competitors with substantially greater financial resources. We may be unable to find attractive locations, build name recognition, successfully market our brand or attract new customers. We may incur additional costs in new markets, particularly for transportation and distribution, which may impact the profitability of those restaurants. Competitive circumstances and consumer characteristics and preferences in new market segments and new geographical markets may differ substantially from those in the market segments and geographical markets in which we have substantial experience. If we are unable to expand in existing markets or penetrate new markets, our ability to increase our revenues and profitability may be harmed.

Changes in economic conditions could materially affect our business, financial condition and results of operations.

The restaurant industry depends on consumer discretionary spending. Economic conditions may remain volatile and may repress consumer confidence and discretionary spending. If current volatile economic conditions continue for a prolonged period of time or worsens, customer traffic could be adversely impacted if our customers choose to dine out less frequently or reduce the amount they spend on meals while dining out. We believe that if the current volatile economic conditions persist for a long period of time or become more pervasive, consumers might make long-lasting changes to their discretionary spending behavior, including dining out less frequently on a permanent basis. If restaurant sales decrease, our profitability could decline as we spread fixed costs across a lower level of sales. Reductions in staff levels, asset impairment charges and potential restaurant closures could result from prolonged negative restaurant sales. There can be no assurance that the macroeconomic environment or the regional economics in which we operate will improve significantly or that government stimulus efforts will improve consumer confidence, liquidity, credit markets, home values or unemployment, among other things.

Damage to our reputation or lack of acceptance of our brand in existing or new markets could negatively impact our business, financial condition and results of operations.

We believe we have built our reputation on the high-quality of our food, service and staff, as well as on our unique culture and the ambience in our restaurants, and we must protect and grow the value of our brand to continue to be successful in the future. Any incident that erodes consumer affinity for our brand, including any foodborne illness or foodborne illness scare could significantly reduce its value and damage our business. For example, our brand value could suffer and our business could be adversely affected if customers perceive a reduction in the quality of our food, service or staff, or an adverse change in our culture or ambience, or otherwise believe we have failed to deliver a consistently positive experience. Additionally, negative incidents that occur at other restaurants may decrease demand for restaurant dining broadly including at our restaurant.

In addition, our ability to successfully develop new restaurants in new markets may be adversely affected by a lack of awareness or acceptance of our brand in these new markets. To the extent that we are unable to foster name recognition and affinity for our brand in new markets, our new restaurants may not perform as expected and our growth may be significantly delayed or impaired.

We may be adversely affected by news reports or other negative publicity regardless of their accuracy, regarding food quality issues, public health concerns, illness, safety, injury or government or industry findings concerning our restaurants, restaurants operated by other foodservice providers, or others across the food industry supply chain. The risks associated with such negative publicity cannot be completely eliminated or mitigated and may materially harm our results of operations and result in damage to our brand.

Also, there has been a marked increase in the use of social media platforms and similar devices, including blogs, social media websites and other forms of Internet-based communications which allow individuals access to a broad audience of consumers and other interested persons. Consumers value readily available information concerning goods and services that they have or plan to purchase, and may act on such information without further investigation or authentication. The availability of information on social media platforms is virtually immediate as is its impact. Many social media platforms immediately publish the content their subscribers and participants can post, often without filters or checks on accuracy of the content posted. The opportunity for dissemination of information, including inaccurate information, is seemingly limitless and readily available. Information concerning our company may be posted on such platforms at any time. Information posted may be adverse to our interests or may be inaccurate, each of which may harm our performance, prospects or business. The harm may be immediate without affording us an opportunity for redress or correction. Such platforms also could be used for dissemination of trade secret information, compromising valuable company assets. In sum, the dissemination of information online could harm our business, prospects, financial condition and results of operations, regardless of the information's accuracy.

Our brand could also be confused with brands that have similar names, including Baja Chuy's Mesquite Broiler, Inc. ("Baja Chuy's"), an unaffiliated restaurant chain with whom we have entered into a settlement agreement regarding use of the Chuy's name. As a result, our brand value may be adversely affected by any negative publicity related to Baja Chuy's or any other restaurant that may use brand names, trademarks or trade dress that are similar to ours.

Our expansion into new markets may present increased risks due to our unfamiliarity with the area.

Some of our new restaurants will be located in areas where we have little or no meaningful experience. Those markets may have different competitive conditions, consumer tastes and discretionary spending patterns than our existing markets, which may cause our new restaurants to be less successful than restaurants in our existing markets. An additional risk of expanding into new markets is the lack of market awareness of our brands. Restaurants opened in new markets may open at lower average weekly sales volume than restaurants opened in existing markets and may have higher restaurant-level operating expense ratios than in existing markets. Sales at restaurants opened in new markets may take longer to reach average unit volume, if at all, thereby affecting our overall profitability.

Approximately 41% of our restaurants are located in Texas and, as a result, we are sensitive to economic and other trends and developments in that state.

As of December 25, 2016, we operated a total of 33 restaurants in Texas. As a result, we are particularly susceptible to adverse trends and economic conditions in this state, including its labor market. In addition, given our geographic concentration in this state, negative publicity regarding any of our restaurants in Texas could have a material adverse effect on our business and operations, as could other occurrences in Texas such as local strikes, energy shortages or extreme fluctuations in energy prices, droughts, hurricanes, fires or other natural disasters.

We are susceptible to economic and other trends and developments, including adverse weather conditions, in the local or regional areas in which our restaurants are located.

Our financial performance is highly dependent on restaurants located in Texas and the Southeastern and Midwestern United States. As a result, adverse economic conditions in any of these areas could have a material adverse effect on our overall results of operations. In recent years, certain of these states have been more negatively impacted by the housing decline, high unemployment rates the overall economic crisis and most recently the decline in oil prices than other geographic areas. In addition, given our geographic concentrations, particularly in Texas, negative publicity regarding any of our restaurants in these areas could have a material adverse effect on our business and operations, as could other regional occurrences such as local strikes, terrorist attacks, changes in energy prices, adverse weather conditions, hurricanes, droughts or other natural or man-made disasters. Adverse weather conditions may also impact customer traffic at our restaurants, cause the temporary underutilization of outdoor patio seating, and, in more severe cases, cause temporary restaurant closures, sometimes for prolonged periods.

Our business is subject to seasonal fluctuations, with restaurant sales typically higher during the spring and summer months as well as in December. Adverse weather conditions during our most favorable months or periods may exacerbate the effect of adverse weather on customer traffic and may cause fluctuations in our operating results from quarter-to-quarter within a fiscal year. In addition, outdoor patio seating is available at nearly all of our restaurants and may be impacted by a number of weather-related factors. Our inability to fully utilize our restaurants' seating capacity as planned may negatively impact our revenues and results of operations.

The impact of negative economic factors, including the availability of credit, on our landlords and surrounding tenants could negatively affect our financial results.

Negative effects on our existing and potential landlords due to the inaccessibility of credit and other unfavorable economic factors may, in turn, adversely affect our business and results of operations. If our landlords are unable to obtain financing or remain in good standing under their existing financing arrangements, they may be unable to provide construction contributions or satisfy other lease covenants to us. In addition, if our landlords are unable to obtain sufficient credit to continue to properly manage their retail sites, we may experience a drop in the level of quality of such retail centers. Our development of new restaurants may also be adversely affected by the negative financial situations of developers and potential landlords. Landlords may try to delay or cancel recent development projects (as well as renovations of existing projects) due to the instability in the credit markets which could reduce the number of appropriate locations available that we would consider for our new restaurants. Furthermore, the failure of landlords to obtain licenses or permits for development projects on a timely basis, which is beyond our control, may negatively impact our ability to implement our development plan.

Changes in food availability and costs could adversely affect our operating results.

Our profitability and operating margins are dependent in part on our ability to anticipate and react to changes in food costs. We rely on two regional distributors, Labatt in Texas, Oklahoma and Louisiana and PFG in the Southeastern United States, and various suppliers to provide our beef, cheese, beans, soybean oil, beverages and our groceries. For our chicken products, we rely on two suppliers, one supplier for our Texas and Oklahoma locations and one for the rest of our locations. For our green chiles, each year we contract with a supplier to buy from a group of farmers in New Mexico, which we have the right to select under our agreement. If and to the extent the farmers are unable or do not supply a sufficient amount of green chiles or if we need chiles out of season, we purchase the excess amount from a secondary supplier. Each restaurant, through its general manager and kitchen manager, purchases its produce locally. Any increase in distribution prices, increase in the prices charged by suppliers or failure to perform by these third-parties could cause our food costs to increase or us to experience short-term unavailability of certain products. Failure to identify an alternate source of supply for these items may result in significant cost increases and an inability to provide certain of the items on our menu. If these events occur, it may reduce the profitability of certain of our offerings and may cause us to increase our prices. In addition, any material interruptions in our supply chain, such as a material interruption of ingredient supply due to the failures of third-party distributors or suppliers, or interruptions in service by common carriers that ship goods within our distribution channels, may result in significant cost increases and reduce sales. Changes in the price, as a result of inflation or otherwise, or availability of certain food products could affect the profitability of certain food items, our ability to maintain existing prices and our ability to purchase sufficient amounts of items to satisfy our customer's demands, which could materially adversely affect our profitability and reputation.

The type, variety, quality, availability and price of produce, beef, chicken and cheese are more volatile than other types of food and are subject to factors beyond our control, including weather, governmental regulation, availability and seasonality, each of which may affect our food costs or cause a disruption in our supply. Our food distributors and suppliers also may be affected by higher costs to produce and transport commodities used in our restaurants, higher minimum wage and benefit costs and other expenses that they pass through to their customers, which could result in higher costs for goods and services supplied to us. Although we are able to contract for some of the food commodities used in our restaurants for periods of up to one year, the pricing and availability of some of the commodities used in our operations, such as our produce, cannot be locked in for periods of longer than one week or at all. We do not use financial instruments to hedge our risk to market fluctuations in the price of our ingredients and other commodities at this time. We may not be able to anticipate and react to changing food costs through our purchasing practices and menu price adjustments in the future, and failure to do so could negatively impact our revenues and results of operations.

Increases in our labor costs, including as a result of changes in government regulation, could slow our growth or harm our business.

We are subject to a wide range of labor costs. Because our labor costs are, as a percentage of revenues, higher than other industries, we may be significantly harmed by labor cost increases. Unfavorable fluctuations in market conditions, availability of such insurance or changes in state and/or federal regulations could significantly increase our insurance premiums. In addition, we are subject to the risk of employment-related litigation at both the state and federal levels, including claims styled as class action lawsuits which are more costly to defend. Also, some employment related claims in the area of wage and hour disputes are not insurable risks.

Significant increases in health care costs may continue to occur, and we can provide no assurance that we will be able to contain those costs. Further, we are continuing to assess the impact of recently-adopted federal health care legislation on our health care benefit costs, and significant increases in such costs could adversely impact our operating results. There is no assurance that we will be able to contain our costs related to such legislation in a manner that will not adversely impact our operating results.

In addition, many of our restaurant personnel are hourly workers subject to various minimum wage requirements or changes to tip credits. Mandated increases in minimum wage levels and changes to the tip credit, which are the amounts an employer is permitted to assume an employee receives in tips when calculating the employee's hourly wage for minimum wage compliance purposes, have recently been and continue to be proposed and implemented at both federal and state government levels. For example, in Kentucky our wait staff is not permitted to pool tips in order to share those tips with bartenders and bussing staff. As a result, we must pay our bartenders and bussing staff in our Kentucky locations additional amounts to ensure they receive minimum wage. Continued minimum wage increases or changes to allowable tip credits may further increase our labor costs or effective tax rate.

Various states in which we operate are considering or have already adopted new immigration laws, and the U.S. Congress and Department of Homeland Security from time to time consider or implement changes to Federal immigration laws, regulations or enforcement programs as well. Some of these changes may increase our obligations for compliance and oversight, which could subject us to additional costs and make our hiring process more cumbersome, or reduce the availability of potential employees. Although we require all workers to provide us with government-specified documentation evidencing their employment eligibility, some of our employees may, without our knowledge, be unauthorized workers. Unauthorized workers are subject to deportation and may subject us to fines or penalties, and if any of our workers are found to be unauthorized we could experience adverse publicity that negatively impacts our brand and may make it more difficult to hire and keep qualified employees. Termination of a significant number of employees that unbeknownst to us were unauthorized employees may disrupt our operations, cause temporary increases in our labor costs as we train new employees and result in additional adverse publicity. Our financial performance could be materially harmed as a result of any of these factors.

Food safety and foodborne illness concerns may have an adverse effect on our business by reducing demand and increasing costs.

Food safety is a top priority, and we dedicate substantial resources to help ensure that our guests enjoy safe, quality food products. However, foodborne illnesses and food safety issues have occurred in the food industry in the past, and could occur in the future. Any report or publicity linking us to instances of foodborne illness or other food safety issues, including food tampering or contamination, could adversely affect our brand and reputation as well as our revenues and profits. In addition, instances of foodborne illness, food tampering or food contamination occurring at our competitors' restaurants could result in negative publicity about the food service industry generally and adversely impact our sales.

Furthermore, our reliance on third-party food suppliers and distributors increases the risk that foodborne illness incidents could be caused by factors outside of our control and that multiple locations would be affected rather than a single restaurant. We cannot assure that all food items are properly maintained during transport throughout the supply chain and that our employees will identify all products that may be spoiled and should not be used in our restaurants. If our guests become ill from foodborne illnesses, we could be forced to temporarily close some restaurants. Furthermore, any instances of food contamination, whether or not at our restaurants, could subject us or our suppliers to a food recall.

The United States and other countries have experienced, or may experience in the future, outbreaks of viruses, such as Ebola, Avian Flu, SARS and H1N1. To the extent that a virus is foodborne, future outbreaks may adversely affect the price and availability of certain food products and cause our guests to eat less of a product. To the extent that a virus is transmitted by human-to-human contact, our employees or guests could become infected, or could choose, or be advised or required, to avoid gathering in public places, any one of which could adversely affect our business.

Labor shortages could increase our labor costs significantly or restrict our growth plans.

Our restaurants are highly dependent on qualified management and operating personnel. Qualified individuals have historically been in short supply and an inability to attract and retain them would limit the success of our existing restaurants as well as our development of new restaurants. We place a heavy emphasis on the qualification and training of our personnel and spend significantly more on training our employees than our competitors. We can make no assurances that we will be able to attract and retain qualified individuals in the future which may have a more significant effect on our operation than those of our competitors. Additionally, the cost of attracting and retaining qualified individuals may be higher than we anticipate, and as a result, our profitability could decline.

Customer traffic at our restaurants could be significantly affected by competition in the restaurant industry in general and, in particular, within the dining segments of the restaurant industry in which we compete.

The restaurant industry is highly competitive with respect to food quality, ambience, service, price and value and location, and a substantial number of restaurant operations compete with us for customer traffic. The main competitors for our brand are other operators of mid-priced, full service concepts in the multi-location casual dining and Tex-Mex/Mexican food segments in which we compete most directly for real estate locations and customers. Some of our competitors have significantly greater financial, marketing, personnel and other resources than we do, and many of our competitors are well established in markets in which we have existing restaurants or intend to locate new restaurants. Any inability to successfully compete with the other restaurants in our markets will place downward pressure on our customer traffic and may prevent us from increasing or sustaining our revenues and profitability. We may also need to evolve our concept in order to compete with popular new restaurant formats or concepts that develop from time to time, and we cannot offer any assurance that we will be successful in doing so or that modifications to our concept will not reduce our profitability. In addition, with improving product offerings at fast casual restaurants, quick-service restaurants and grocery stores and the influence of negative economic conditions and other factors, consumers may choose less expensive alternatives, which could also negatively affect customer traffic at our restaurants.

Legislation and regulations requiring the display and provision of nutritional information for our menu offerings, and new information or attitudes regarding diet and health or adverse opinions about the health effects of consuming our menu offerings, could affect consumer preferences and negatively impact our results of operations.

Government regulation and consumer eating habits may impact our business as a result of changes in attitudes regarding diet and health or new information regarding the health effects of consuming our menu offerings. These changes have resulted in, and may continue to result in, the enactment of laws and regulations that impact the ingredients and nutritional content of our menu offerings, or laws and regulations requiring us to disclose the nutritional content of our food offerings. The Patient Protection and Affordable Care Act of 2010 (the "PPACA") establishes a uniform, federal requirement for certain restaurants to post nutritional information on their menus. The FDA has recently finalized regulations to implement the nutritional menu labeling provisions of the PPACA. These final regulations will be effective in May 2017 and will establish a uniform, federal requirement for certain restaurants, including ours, to post nutritional information on their menus. We will be required to publish the total number of calories of standard menu items on menus, along with a statement that puts this calorie information in the context of a total daily calorie intake. The PPACA also requires us to provide to consumers, upon request, a written summary of detailed nutritional information for each standard menu item, and to provide a statement on menus about the availability of this information. The PPACA also permits the FDA to require us to make additional nutrient disclosures, such as the disclosure of trans-fat content. An unfavorable report on, or reaction to, our menu ingredients, the size of our portions, or the nutritional content of our menu items could negatively influence the demand for our offerings. We cannot make any assurances regarding our ability to effectively respond to changes in consumer health perceptions or our ability to successfully implement the nutrient content disclosure requirements and to adapt our menu offerings to trends and eating habits. The imposition of menu-labeling laws could have an adverse effect on our results of operations and financial position, as well as the restaurant industry in general.

Multiple jurisdictions in which we operate have recently enacted new requirements that require us to adopt and implement a Hazard Analysis and Critical Control Points ("HACCP") System for managing food safety and quality. HACCP refers to a management system in which food safety is addressed through the analysis and control of potential hazards from production, procurement and handling, to manufacturing, distribution and consumption of the finished product. We expect to incur certain costs to comply with these regulations and these costs may be more than we anticipate. If we fail to comply with these laws or regulations, our business could experience a material adverse effect.

Federal, state and local beer, liquor and food service regulations may have a significant adverse impact on our operations.

We are required to operate in compliance with federal laws and regulations relating to alcoholic beverages administered by the Bureau of Alcohol, Tobacco, Firearms and Explosives of the U.S. Department of Justice, as well as the laws and licensing requirements for alcoholic beverages of states and municipalities where our restaurants are or will be located. In addition, each restaurant must obtain a food service license from local authorities. Failure to comply with federal, state or local regulations could cause our licenses to be revoked and force us to cease the sale of alcoholic beverages at certain locations. Any difficulties, delays or failures in obtaining such licenses, permits or approvals could delay or prevent the opening of a restaurant in a particular area or increase the costs associated therewith. In addition, in certain states, including states where we have existing restaurants or where we plan to open a restaurant, the number of liquor licenses available is limited, and licenses are traded on the open market. Liquor, beer and wine sales comprise a significant portion of our revenues. If we are unable to maintain our existing licenses, our customer patronage, revenues and results of operations could be adversely affected. Or, if we choose to open a restaurant in those states where the number of licenses available is limited, the cost of a new license could be significant.

We apply for our liquor licenses with the advice of outside legal and licensing consultants. Because of the many and various state and federal licensing and permitting requirements, there is a significant risk that one or more regulatory agencies could determine that we have not complied with applicable licensing or permitting regulations or have not maintained the approvals necessary for us to conduct business within its jurisdiction. Any changes in the application or interpretation of existing laws may adversely impact our restaurants in that state, and could also cause us to lose, either temporarily or permanently, the licenses, permits and regulations necessary to conduct our restaurant operations, and subject us to fines and penalties.

Restaurant companies have been the target of class-actions and other litigation alleging, among other things, violations of federal and state law.

We are subject to a variety of lawsuits, administrative proceedings and claims that arise in the ordinary course of our business. In recent years, a number of restaurant companies have been subject to claims by customers, employees and others regarding issues such as food safety, personal injury and premises liability, employment-related claims, harassment, discrimination, disability and other operational issues common to the foodservice industry. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. An adverse judgment or settlement that is not insured or is in excess of insurance coverage could have an adverse impact on our profitability and could cause variability in our results compared to expectations. We carry insurance policies for a significant portion of our risks and associated liabilities with respect to workers' compensation, general liability, employer's liability, health benefits and other insurable risks. Regardless of whether any claims that may be brought against us are valid or whether we are ultimately determined to be liable, we could also be adversely affected by negative publicity, litigation costs resulting from the defense of these claims and the diversion of time and resources from our operations.

We are subject to state "dram shop" laws and regulations, which generally provide that a person injured by an intoxicated person may seek to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Recent litigation against restaurant chains has resulted in significant judgments, including punitive damages, under such "dram shop" statutes. While we carry liquor liability coverage as part of our existing comprehensive general liability insurance, we may still be subject to a judgment in excess of our insurance coverage, and we may not be able to obtain or continue to maintain such insurance coverage at reasonable costs, if at all. Regardless of whether any claims against us are valid or whether we are liable, we may be adversely affected by publicity resulting from such laws.

Our marketing programs may not be successful.

We expend resources in our marketing efforts using a variety of media, including social media. We expect to continue to conduct brand awareness programs and customer initiatives to attract and retain customers. These initiatives may not be successful, resulting in expenses incurred without the benefit of higher revenues. Additionally, some of our competitors have greater financial resources, which enable them to spend significantly more on marketing and advertising than we are able to. Should our competitors increase spending on marketing and advertising or our marketing funds decrease for any reason, or should our advertising and promotions be less effective than our competitors, there could be a material adverse effect on our results of operations and financial condition.

The impact of new restaurant openings could result in fluctuations in our financial performance.

Quarterly results have been, and in the future may continue to be, significantly impacted by the timing of new restaurant openings (often dictated by factors outside of our control), including associated restaurant pre-opening costs and operating inefficiencies, as well as changes in our geographic concentration due to the opening of new restaurants. We typically incur the most significant portion of restaurant pre-opening expenses associated with a given restaurant within the five months immediately preceding and the month of the opening of the restaurant. As the regional and national economies in which we operate improve, we may encounter more competition in obtaining lease sites and, as a result, may be unable to negotiate similar levels of tenant incentives under our new leases. If we are unable to obtain similar levels of tenant incentives for a particular unit, we would expect to incur increased capital expenditures in advance of opening and pay lower rent with respect to the restaurant. Our experience has been that labor and operating costs associated with a newly opened restaurant for the first several months of operation are materially greater than what can be expected after that time, both in aggregate dollars and as a percentage of revenues. Our new restaurants commonly take nine months to one year to reach planned operating levels due to inefficiencies typically associated with new restaurants, including the training of new personnel, lack of market awareness, inability to hire sufficient qualified staff and other factors. Accordingly, the volume and timing of new restaurant openings has had, and may continue to have, a meaningful impact on our profitability. Due to the foregoing factors, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for a full fiscal year, and these fluctuations may cause our operating results to be below expectations of public market analysts and investors.

Opening new restaurants in existing markets may negatively affect sales at our existing restaurants.

The consumer target area of our restaurants varies by location, depending on a number of factors such as population density, local retail and business attractions, area demographics and geography. As a result, the opening of a new restaurant in or near markets in which we already have existing restaurants could adversely impact the sales of new or existing restaurants. Our core business strategy does not entail opening new restaurants that materially impact sales at our existing restaurants but we may selectively open new restaurants in and around areas of existing restaurants that are operating at or near capacity. There can be no assurance that sales cannibalization between our restaurants will not occur or become more significant in the future as we continue to expand our operations.

Our business operations and future development could be significantly disrupted if we lose key members of our management team.

The success of our business continues to depend to a significant degree upon the continued contributions of our senior officers and key employees, both individually and as a group. Our future performance will be substantially dependent in particular on our ability to retain and motivate Steve Hislop, our Chief Executive Officer, and our other senior officers. We currently have employment agreements in place with Messrs. Hislop, Howie and Hatcher and Mrs. Russell. The loss of the services of our CEO, other senior officers or other key employees could have a material adverse effect on our business and plans for future development. We have no reason to believe that we will lose the services of any of these individuals in the foreseeable future; however, we currently have no effective replacement for any of these individuals due to their experience, reputation in the industry and special role in our operations. We also do not maintain any key man life insurance policies for any of our employees.

Our growth may strain our infrastructure and resources, which could slow our development of new restaurants and adversely affect our ability to manage our existing restaurants.

During fiscal years 2014, 2015 and 2016 we opened eleven, ten and twelve restaurants, respectively. During 2017, we have opened two restaurant as of February 28, 2017 and plan to open a total of twelve to fourteen restaurants for the year. Our future growth may strain our administrative staff, management systems and resources, financial controls and information systems. Those demands on our infrastructure and resources may also adversely affect our ability to manage our existing restaurants. If we fail to continue to improve our infrastructure or to manage other factors necessary for us to meet our expansion objectives, our operating results could be materially and adversely affected. Likewise, if sales decline, we may be unable to reduce our infrastructure quickly enough to prevent sales deleveraging, which would adversely affect our profitability.

Our insurance policies may not provide adequate levels of coverage against all claims, and fluctuating insurance requirements and costs could negatively impact our profitability.

We believe our insurance coverage is customary for businesses of our size and type. However, there are types of losses we may incur that cannot be insured against or that we believe are not commercially reasonable to insure. These losses, if they occur, could have a material and adverse effect on our business and results of operations. In addition, the cost of workers' compensation insurance, general liability insurance and directors' and officers' liability insurance fluctuates based on our historical trends, market conditions and availability. Additionally, health insurance costs in general have risen significantly over the past few years and are expected to continue to increase. These increases, as well as federal legislation requiring employers to provide specified levels of health insurance to all employees, could have a negative impact on our profitability, and there can be no assurance that we will be able to successfully offset the effect of such increases with plan modifications and cost control measures, additional operating efficiencies or the pass-through of such increased costs to our customers.

Limitations in our Revolving Credit Facility may limit our ability to invest in the ongoing needs of our business and if we are unable to comply with our financial covenants, our liquidity and results of operations could be adversely affected.

At December 25, 2016 we had no outstanding indebtedness under our Revolving Credit Facility.

Our Revolving Credit Facility places certain conditions on us, including that it:

- limits our flexibility in planning for, or reacting to, changes in our business or the industries in which we operate;
- makes us more vulnerable to increases in interest rates, as borrowings under our Revolving Credit Facility are at variable rates;
- limits our ability to obtain additional financing in the future for working capital or other purposes; and
- could place us at a competitive disadvantage compared to our competitors that have less indebtedness.

Our Revolving Credit Facility places certain limitations on our ability to incur additional indebtedness. However, subject to the qualifications and exceptions in our Revolving Credit Facility, we may incur substantial additional indebtedness under that facility and may incur obligations that do not constitute indebtedness under that facility. The Revolving Credit Facility also places certain limitations on, among other things, our ability to enter into certain types of transactions, financing arrangements and investments, to make certain changes to our capital structure and to guarantee certain indebtedness. The Revolving Credit Facility also places certain restrictions on the payment of dividends and distributions. These restrictions limit or prohibit, among other things, our ability to:

- pay dividends on, redeem or repurchase our stock or make other distributions;
- incur or guarantee additional indebtedness;
- sell stock in our subsidiaries;
- create or incur liens;
- make acquisitions or investments;
- transfer or sell certain assets or merge or consolidate with or into other companies; and
- enter into certain transactions with our affiliates.

Failure to comply with certain covenants or the occurrence of a change of control under our Revolving Credit Facility could result in the acceleration of our obligations under the Revolving Credit Facility, which would have an adverse effect on our liquidity, capital resources and results of operations.

Our Revolving Credit Facility also requires us to comply with certain financial covenants including a minimum fixed charge coverage ratio and a maximum total lease adjusted leverage ratio. Changes with respect to these financial covenants may increase our interest rate and failure to comply with these covenants could result in a default and an acceleration of our obligations under the Revolving Credit Facility, which would have an adverse effect on our liquidity, capital resources and results of operations.

We may be unable to obtain debt or other financing on favorable terms or at all.

There are inherent risks in our ability to borrow. Our lenders may be unable to lend to us or tighten their lending standards, which could make it more difficult for us to increase the available commitment under our Revolving Credit Facility, refinance our existing indebtedness or to obtain other financing on favorable terms or at all. Our financial condition and results of operations would be adversely affected if we were unable to draw funds under our Revolving Credit Facility because of a lender default or to obtain other cost-effective financing.

Longer term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business can be arranged. Such measures could include deferring capital expenditures (including the opening of new restaurants) and reducing or eliminating other discretionary uses of cash.

We may be required to record asset impairment charges in the future.

In accordance with accounting guidance as it relates to the impairment of long-lived assets, we review 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 cash flows and other relevant factors and circumstances. Deficient restaurant-level cash flow (defined as restaurant net income plus depreciation, gain and/or loss on assets and pre-opening expense) over the previous 24-month period in a stabilized location is considered a potential impairment indicator. In such situations, the Company evaluates future cash flow projections in conjunction with qualitative factors and future operating plans. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the restaurant to the estimated undiscounted future cash flow expected to be generated by the restaurant. If the carrying amount of the restaurant exceeds estimated future cash flow, an impairment charge is recognized for the amount by which the asset's carrying amount exceeds its fair value. As a result of the above mentioned review process, we recognized a non-cash loss on asset impairment of $4.4 million related to three restaurants in fiscal 2015. We did not recognize an impairment charge during fiscal 2016 or 2014.

Economic weakness within our respective markets could adversely impact consumer discretionary spending and may result in lower restaurant sales. Unfavorable fluctuations in our commodity costs, supply costs and labor rates, which may or may not be within our control, may also impact our operating margins. Any of these factors could as a result affect the estimates used in our impairment analysis and require additional impairment tests and charges to earnings. We continue to assess the performance of our restaurants and monitor the need for future impairment. There can be no assurance that future impairment tests will not result in additional charges to earnings.

Security breaches of confidential customer information in connection with our electronic processing of credit and debit card transactions may adversely affect our business.

The majority of our restaurant sales are by credit or debit cards. Other restaurants and retailers have experienced security breaches in which credit and debit card information of their customers has been stolen. We may in the future become subject to lawsuits or other proceedings for purportedly fraudulent transactions arising out of the actual or alleged theft of our customers' credit or debit card information. In addition, most states have enacted legislation requiring notification of security breaches involving personal information, including credit and debit card information. Any such claim, proceeding, or mandatory notification could cause us to incur significant unplanned expenses, which could have an adverse impact on our financial condition and results of operations. Further, adverse publicity resulting from these allegations may have a material adverse effect on us and our restaurants.

We may not be able to adequately protect our intellectual property, which, in turn, could harm the value of our brand and adversely affect our business.

Our ability to implement our business plan successfully depends in part on our ability to build brand recognition in the areas surrounding our locations using our trademarks and other proprietary intellectual property, including our brand names, logos and the unique ambience of our restaurants. We have registered or applied to register a number of our trademarks. We cannot assure you that our trademark applications will be approved. Also, as a result of the settlement agreement with an unaffiliated entity, Baja Chuy's, we may not use "Chuy's" in Nevada, California or Arizona, which may have an adverse effect on our growth plans in these states. Additionally, our brand value may be diluted as a result of their use of "Chuy's" in these states. Third parties may also oppose our trademark applications, or otherwise challenge our use of the trademarks. In the event that our trademarks are successfully challenged, we could be forced to rebrand our goods and services, which could result in loss of brand recognition, and could require us to devote resources to advertising and marketing new brands.

We enforce our rights through a number of methods, including the issuance of cease-and-desist letters or making infringement claims in federal court. If our efforts to register, maintain and protect our trademarks or other intellectual property are inadequate, or if any third party misappropriates, dilutes or infringes on our intellectual property, the value of our brand may be harmed, which could have a material adverse effect on our business and might prevent our brand from achieving or maintaining market acceptance. We may also face the risk of claims that we have infringed third parties' intellectual property rights. A successful claim of infringement against us could result in our being required to pay significant damages or enter into costly licensing or royalty agreements in order to obtain the right to use a third party's intellectual property, any of which could have a negative impact on our results of operations and harm our future prospects. If such royalty or licensing agreements are not available to us on acceptable terms or at all, we may be forced to stop the sale of certain products or services. Any claims of intellectual property infringement, even those without merit, could be expensive and time consuming to defend, require us to rebrand our services, if feasible, and divert management's attention.

We also rely on trade secrets and proprietary know-how to protect our brand. Our methods of safeguarding this information may not be adequate. Moreover, we may face claims of misappropriation or infringement of third parties' rights that could interfere with our use of this information. Defending these claims may be costly and, if unsuccessful, may prevent us from continuing to use this proprietary information in the future and may result in a judgment or monetary damages. We do not maintain confidentiality agreements with all of our team members or suppliers. Even with respect to the confidentiality agreements we have, we cannot assure you that those agreements will not be breached, that they will provide meaningful protection, or that adequate remedies will be available in the event of an unauthorized use or disclosure of our proprietary information. If competitors independently develop or otherwise obtain access to our trade secrets or proprietary know-how, the appeal of our restaurants could be reduced and our business could be harmed. In addition, if we default under our lease agreements with our landlord, Young/Zapp GP, LLC ("Young/Zapp") and its subsidiaries, at certain of our locations, our landlord may have the right to operate a Tex-Mex or Mexican food restaurant at that location using our recipes and our trade dress. If such default were to occur, the brand value of our recipes and our trade dress might suffer.

Information technology system failures or breaches of our network security could interrupt our operations and adversely affect our business.

We rely on our computer systems and network infrastructure across our operations, including point-of-sale processing at our restaurants. Our operations depend upon our ability to protect our computer equipment and systems against damage from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses, worms and other disruptive problems. Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could have a material adverse effect on our business and subject us to litigation or actions by regulatory authorities. Although we employ both internal resources and external consultants to audit our systems, and test them for vulnerability, we have implemented firewalls, data encryption and other security controls and intend to maintain and upgrade our security technology and operational procedures to prevent such damage, breaches or other disruptive problems, however these security measures may not eliminate all risks.

A major natural or man-made disaster could have a material adverse effect on our business.

Most of our corporate systems, processes and corporate support for our restaurant operations are centralized at our headquarters in Austin, Texas, with certain systems and processes being concurrently stored at an offsite storage facility in accordance with our disaster recovery plan. As part of our disaster recovery plan, we have backup processes for our core systems at our co-location facility. If we are unable to fully implement this new disaster recovery plan, we may experience failures or delays in recovery of data, delayed reporting and compliance, inability to perform necessary corporate functions and other breakdowns in normal operating procedures that could have a material adverse effect on our business and create exposure to administrative and other legal claims against us.

We will continue to incur increased costs and demands upon management as a result of complying with the laws and regulations affecting public companies, particularly after we are no longer an "emerging growth company," which could adversely affect our business, operating results and financial condition.

As a public company, we will continue to incur significant legal, accounting and other expenses. We are subject to the reporting requirements of the Securities Exchange Act of 1934, the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), the Dodd-Frank Wall Street Reform and Consumer Protection Act, and the rules and regulations of the Nasdaq Stock Market. These requirements have increased and will continue to increase our legal, accounting and financial compliance costs. Further, we expect that our management and other personnel will need to divert attention from operational and other business matters to devote substantial time to these public company requirements.

However, we are currently an "emerging growth company" as defined in the Jumpstart Our Business Startups Act of 2012. We may take advantage of certain exemptions from various reporting requirements until we lose our "emerging growth company" status, which will occur as of the end of fiscal 2017. These exceptions provide for, but are not limited to, relief from the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of, less extensive disclosure obligations regarding executive compensation in our periodic reports and proxy statements, exemptions from the requirements to hold a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved and an extended transition period for complying with new or revised accounting standards.

We expect to incur additional expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act, during fiscal 2017. If we are not able to comply with the requirements of Section 404 applicable to us in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the SEC or other regulatory authorities, which would require additional financial and management resources.

Failure of our internal control over financial reporting could adversely affect our business and financial results.

Our management is responsible for establishing and maintaining effective internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of financial reporting for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that we would prevent or detect a misstatement of our financial statements or fraud. Any failure to maintain an effective system of internal control over financial reporting could limit our ability to report our financial results accurately and timely or to detect and prevent fraud. The identification of a material weakness could indicate a lack of controls adequate to generate accurate financial statements that, in turn, could cause a loss of investor confidence and decline in the market price of our common stock. We cannot assure you that we will be able to timely remediate any material weaknesses that may be identified in future periods or maintain all of the controls necessary for continued compliance. Likewise, we cannot assure you that we will be able to retain sufficient skilled finance and accounting personnel, especially in light of the increased demand for such personnel among publicly traded companies.

In addition, as an “emerging growth company”, we are not required to have and have not had our independent registered public accounting firm perform an evaluation of our internal control over financial reporting as of the end of our fiscal year in accordance with the provisions of the Sarbanes-Oxley Act. Had our independent registered public accounting firm performed an evaluation of our internal control over financial reporting in accordance with the provisions of the Sarbanes-Oxley Act, control deficiencies may have been identified by our independent registered public accounting firm and those control deficiencies could have also represented one or more material weaknesses.

Federal, state and local tax rules may adversely impact our results of operations and financial position.

We are subject to federal, state and local taxes in the U.S. If the Internal Revenue Service (“IRS”) or other taxing authority disagrees with the positions we have taken on our tax returns, we could face additional tax liability, including interest and penalties. If material, payment of such additional amounts upon final adjudication of any disputes could have a material impact on our results of operations and financial position. In addition, complying with new tax rules, laws or regulations could impact our financial condition, and increases to federal or state statutory tax rates and other changes in tax laws, rules or regulations may increase our effective tax rate. Any increase in our effective tax rate could have a material impact on our financial results.

Risks Relating to Ownership of our Common Stock

We are an emerging growth company and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.

We are an emerging growth company, as defined in the JOBS Act, and we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies including, but not limited to, not being required to obtain an assessment of the effectiveness of our internal controls over financial reporting from our independent registered public accounting firm pursuant to Section 404 of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. In addition, we may elect to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. To the extent we choose to do so, our financial statements may not be comparable to companies that comply with such new or revised accounting standards. We cannot predict if investors will find our common stock less attractive because we will rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

The price of our common stock may be volatile and you could lose all or part of your investment.

Volatility in the market price of our common stock may prevent you from being able to sell your shares at or above the price you paid for your shares. The market price of our common stock could fluctuate significantly for various reasons, which include:

- our quarterly or annual earnings or those of other companies in our industry;

- changes in laws or regulations, or new interpretations or applications of laws and regulations, that are applicable to our business;
- the public's reaction to our press releases, our other public announcements and our filings with the SEC;
- changes in accounting standards, policies, guidance, interpretations or principles;
- additions or departures of our senior management personnel;
- sales of our common stock by our directors and executive officers;
- adverse market reaction to any indebtedness we may incur or securities we may issue in the future;
- actions by stockholders;
- the level and quality of research analyst coverage for our common stock, changes in financial estimates or investment recommendations by securities analysts following our business or failure to meet such estimates;
- the financial disclosure we may provide to the public, any changes in such disclosure or our failure to meet such disclosure;
- various market factors or perceived market factors, including rumors, whether or not correct, involving us, our distributors or suppliers or our competitors;
- acquisitions or strategic alliances by us or our competitors;
- short sales, hedging and other derivative transactions in our common stock;
- the operating and stock price performance of other companies that investors may deem comparable to us; and
- other events or factors, including changes in general conditions in the United States and global economies or financial markets (including those resulting from acts of God, war, incidents of terrorism or responses to such events).

Recently, the stock market has experienced considerable price and volume fluctuations. This volatility has had an impact on the market price of securities issued by many companies, including companies in our industry. The price of our common stock could fluctuate based upon factors that have little or nothing to do with our company, and these fluctuations could materially reduce our share price.

In the past, following periods of market volatility in the price of a company's securities, security holders have often instituted class action litigation. If the market value of our common stock experiences adverse fluctuations and we become involved in this type of litigation, regardless of the outcome, we could incur substantial legal costs and our management's attention could be diverted from the operation of our business, causing our business to suffer.

Future sales of our common stock in the public market could lower our share price, and the exercise of stock options and any additional capital raised by us through the sale of our common stock may dilute your ownership in us.

Sales of substantial amounts of our common stock in the public market by our existing stockholders except from registration or upon the exercise of outstanding stock options or stock options granted in the future may adversely affect the market price of our common stock. Such sales could also create public perception of difficulties or problems with our business. These sales might also make it more difficult for us to sell securities in the future at a time and price that we deem appropriate.

As of December 25, 2016, we have 818,257 shares of common stock reserved for issuance under the 2012 Omnibus Equity Incentive Plan. Additionally there were 316,027 shares of common stock issuable upon exercise of outstanding options, of which 259,117 of these options were fully vested.

If securities analysts or industry analysts downgrade our shares, publish negative research or reports, or do not publish reports about our business, our share price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us, our business and our industry. If one or more analysts adversely change their recommendation regarding our shares or our competitors' stock, our share price would likely decline. If one or more analysts cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our share price or trading volume to decline.

Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of us more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our common stock.

Provisions in our certificate of incorporation and bylaws, as amended and restated, may have the effect of delaying or preventing a change of control or changes in our management. Our amended and restated certificate of incorporation and amended and restated bylaws include provisions that:

- authorize our board of directors to issue, without further action by the stockholders, up to 15,000,000 shares of undesignated preferred stock;
- require that any action to be taken by our stockholders be effected at a duly called annual or special meeting and not by written consent;
- specify that special meetings of our stockholders can be called only by a majority of our board of directors, the Chair of our board of directors, or our Chief Executive Officer;
- establish an advance notice procedure for stockholder proposals to be brought before an annual meeting, including proposed nominations of persons for election to our board of directors;
- establish that our board of directors is divided into three classes, with each class serving three-year staggered terms;
- prohibit cumulative voting in the election of directors;
- provide that our directors may be removed only for cause by the holders of a supermajority of our outstanding shares of capital stock;
- provide that vacancies on our board of directors may be filled only by a majority of directors then in office, even though less than a quorum; and
- require the approval of our board of directors or the holders of a supermajority of our outstanding shares of capital stock to amend our bylaws and certain provisions of our certificate of incorporation.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any “interested” stockholder (any stockholder with 15% or more of our capital stock) for a period of three years following the date on which the stockholder became an “interested” stockholder.

Since we do not expect to pay any dividends for the foreseeable future, investors may be forced to sell their stock in order to realize a return on their investment.

Since we do not expect to pay any dividends for the foreseeable future, investors may be forced to sell their shares in order to realize a return on their investment. Other than the dividend paid in connection with entering into our old credit facility (the "Old Credit Facility") which was terminated in connection with entering into our Revolving Credit Facility in November 2012, we have not declared or paid any dividends on our common stock. We do not anticipate that we will pay any dividends to holders of our common stock for the foreseeable future. Any payment of cash dividends will be at the discretion of our board of directors and will depend on our financial condition, capital requirements, legal requirements, earnings and other factors. Our ability to pay dividends is restricted by the terms of our Revolving Credit Facility and might be restricted by the terms of any indebtedness that we incur in the future. Consequently, you should not rely on dividends in order to receive a return on your investment. See Item 5. “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities—Dividend Policy.”

Our reported financial results may be adversely affected by changes in accounting principles applicable to us.

Our reported financial results may be adversely affected by changes in accounting principles applicable to us. Generally accepted accounting principles in the U.S. (“GAAP”) are subject to interpretation by the Financial Accounting Standards Board (“FASB”), the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results, and could affect the reporting of transactions completed before the announcement of a change. In addition, the SEC has announced a multi-year plan that could ultimately lead to the use of International Financial Reporting Standards by U.S. issuers in their SEC filings. Any such change could have a significant effect on our reported financial results.

Our ability to raise capital in the future may be limited.

Our ability to raise capital in the future may be limited. Our business and operations may consume resources faster than we anticipate. In the future, we may need to raise additional funds through the issuance of new equity securities, debt or a combination of both. Additional financing may not be available on favorable terms, or at all. If adequate funds are not available on acceptable terms, we may be unable to fund our capital requirements. If we issue new debt securities, the debt holders would have rights senior to common stockholders to make claims on our assets, and the terms of any debt could restrict our operations, including our ability to pay dividends on our common stock. If we issue additional equity securities, existing stockholders will experience dilution, and the new equity securities could have rights senior to those of our common stock. Because our decision to issue securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, our stockholders bear the risk of our future securities offerings, diluting their interest and reducing the market price of our common stock.

Conflicts of interest may arise with some of our directors.

Our founders serve as co-chairmen on our board of directors. Our founders could invest in entities that directly or indirectly compete with us. As a result of our relationship with our founders, when conflicts arise between the interests of our founders and the interests of our stockholders, these directors may not be disinterested.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

As of February 28, 2017, we operated 82 Chuy’s restaurants located in the following states:

LOCATION	NUMBER OF RESTAURANTS
Alabama	2
Arkansas	3
Florida	7
Georgia	3
Indiana	2
Louisiana	1
Kentucky	4
Maryland	1
Missouri	1
North Carolina	4
Ohio	4
Oklahoma	3
South Carolina	1
Tennessee	6
Texas	34
Virginia	6
Total	82

As of February 28, 2017 we have also signed leases and are in development for 10 additional restaurants in West Chester, Ohio; Olathe, Kansas; Westminster, Colorado; Warrenville, Illinois; Jacksonville, Florida; Lakewood, Colorado; Miami, Florida; Orland Park, Illinois; Kendall, Florida and Peachtree, Georgia. We lease all of the land, parking lots and buildings used in our restaurant operations under various long-term operating lease agreements. For additional information regarding our obligations under our leases, see Note 9 to our Consolidated Financial Statements.

All of our restaurant leases provide for base (fixed) rent, plus the majority provide for additional rent based on gross sales (as defined in each lease agreement) in excess of a stipulated amount, multiplied by a stated percentage. A significant percentage of our restaurant leases also provide for periodic escalation of minimum annual rent either based upon increases in the Consumer Price Index or a pre-determined schedule. Typically, the initial lease term is 10 or 15 years in length with 2 to 4 5-year extension options. The initial terms of our leases currently expire between 2017 and 2036. We are also generally obligated to pay certain real estate taxes, insurances, common area maintenance charges and various other expenses related to the properties. Our corporate headquarters is also leased and is located at 1623 Toomey Road, Austin, Texas 78704. We recently subleased additional office space from certain related parties to expand our corporate headquarters. See "Item 9B. Other Information" for additional details.

ITEM 3. LEGAL PROCEEDINGS

Occasionally we are a party to various legal actions arising in the ordinary course of our business including claims resulting from “slip and fall” accidents, employment related claims and claims from customers or employees alleging illness, injury or other food quality, health or operational concerns. None of these types of litigation, most of which are covered by insurance, has had a material effect on us, and as of December 25, 2016, we are not a party to any material pending legal proceedings and are not aware of any claims that could have a materially adverse effect on our financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common shares are traded on the Nasdaq Global Select Market under the symbol "CHUY". The following table sets forth, for the periods indicated, the high and low sales prices of our common stock, as reported by the Nasdaq Global Select Market:

	High	Low
Fourth Quarter of 2016 (September 26, 2016 – December 25, 2016)	$ 35.30	$ 25.87
Third Quarter of 2016 (June 27, 2016 – September 25, 2016)	$ 37.78	$ 27.78
Second Quarter of 2016 (March 28, 2016 – June 26, 2016)	$ 35.94	$ 28.43
First Quarter of 2016 (December 28, 2015 – March 27, 2016)	$ 37.34	$ 27.00
Fourth Quarter of 2015 (September 28, 2015 – December 27, 2015)	$ 34.09	$ 26.42
Third Quarter of 2015 (June 29, 2015 – September 27, 2015)	$ 35.76	$ 25.69
Second Quarter of 2015 (March 30, 2015 – June 28, 2015)	$ 28.04	$ 21.60
First Quarter of 2015 (December 29, 2014 – March 29, 2015)	$ 24.95	$ 18.40

On February 28, 2017, the closing price of our common stock on the Nasdaq Global Select Market was $28.50 per share.

Holders

As of February 28, 2017, there were approximately 42 holders of record of our common stock. The number of holders of record is based upon the actual numbers of holders registered at such date and does not include holders of shares in "street name" or persons, partnerships, associates, corporations or other entities in security position listings maintained by depositories.

Dividend Policy

During the fiscal years ended December 25, 2016 and December 27, 2015 we did not declare or pay any dividends on our common stock. We currently expect to retain all available funds and future earnings, if any, for use in the operation and growth of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to pay cash dividends will be at the discretion of our board of directors and will depend on our financial condition, operating results, capital requirements and such other factors as our board of directors deems relevant. In addition, in certain circumstances, our Revolving Credit Facility restricts our ability to pay dividends. For additional information, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Unregistered Sales of Equity Securities and Use of Proceeds

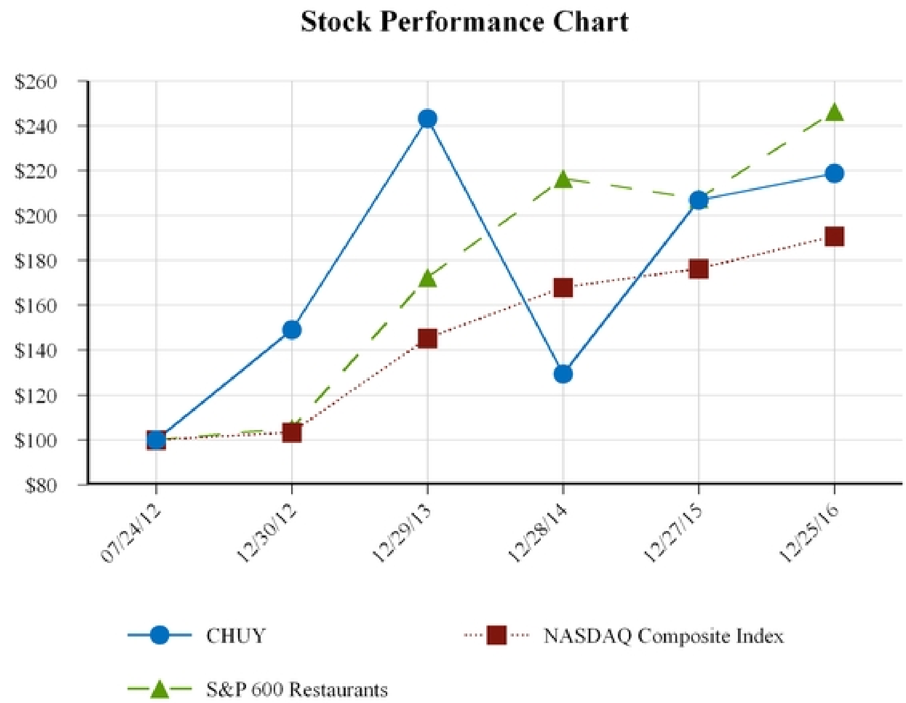
The table below provides information with respect to our purchase of shares of our common stock during the three months ended December 25, 2016:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share
September 26, 2016 through October 23, 2016	—	$ —
October 24, 2016 through November 20, 2016	68	28.25
November 21, 2016 through December 25, 2016	—	—
Total	68	$ —

(1) Includes shares that were surrendered to the Company to satisfy tax withholding obligations in connection with vesting of restricted stock units.

Stock Performance Chart

The following graph compares the cumulative total stockholder return on our common stock from July 24, 2012, the date of our IPO, through December 25, 2016 to that of the total return of the Nasdaq Composite and the S&P 600 Restaurants Index. The comparison assumes $100 was invested in Chuy's common stock on July 24, 2012 and in each of the forgoing indices on July 24, 2012 and assumes the reinvestment of dividends. This graph is furnished and not filed with the SEC. Notwithstanding anything to the contrary set forth in any of our previous filings made under the Securities Act of 1933 or the Securities Exchange Act of 1934 that incorporate future filings made by us under those statutes, the below stock performance graph is not to be incorporated by reference in any prior filings, nor shall it be incorporated by reference into any future filings made by us under those statutes.



		7/27/2012		12/30/2012		12/29/2013		12/28/2014		12/27/2015		12/25/2016
Chuy's Holdings, Inc.	$	100.00	$	148.94	$	243.23	$	129.42	$	206.77	$	218.79
S&P 600 Restaurants	$	100.00	$	105.18	$	172.45	$	216.48	$	207.53	$	246.43
NASDAQ Composite Index	$	100.00	$	103.40	$	145.18	$	167.90	$	176.34	$	190.80

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ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial and operating data for each of the five fiscal years in the period ended December 25, 2016 are derived from our audited consolidated financial statements. Not all periods shown below are discussed in this Annual Report on Form 10-K. This selected consolidated financial and operating data should be read in conjunction with the consolidated financial statements and accompanying notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other financial information included elsewhere in the Annual Report on Form 10-K. Historical results are not necessarily indicative of future performance.

	Fiscal Years Ended (1)				
	December 25, 2016	December 27, 2015	December 28, 2014	December 29, 2013	December 30, 2012
	(Amounts are shown in thousands, except per share amounts)				
Consolidated Statements of Income:					
Revenue	$ 330,613	$ 287,062	$ 245,101	$ 204,361	$ 172,640
Costs and Expenses:					
Cost of sales	85,542	75,686	69,159	55,894	46,475
Labor	110,730	93,625	82,665	66,565	55,223
Operating	45,900	39,954	33,897	29,279	24,498
Occupancy	22,204	19,019	15,167	12,262	10,332
General and administrative	17,560	16,176	11,693	10,015	9,358
Advisory agreement termination fee	—	—	—	—	2,000
Secondary offering costs	—	—	—	925	228
Marketing	2,390	2,249	1,719	1,306	1,319
Restaurant pre-opening	5,348	4,417	4,539	3,883	3,383
Impairment and closure costs	1,517	4,360	—	—	—
Depreciation and amortization	15,081	12,827	10,310	8,858	6,528
Total cost and expenses	306,272	268,313	229,149	188,987	159,344
Income from operations	24,341	18,749	15,952	15,374	13,296
Loss on extinguishment of debt	—	—	—	—	1,673
Interest expense, net	63	110	124	109	3,923
Income before income taxes	24,278	18,639	15,828	15,265	7,700
Income tax expense	7,034	5,743	4,337	4,196	2,243
Net income	17,244	12,896	11,491	11,069	5,457
Undistributed earnings allocated to participating interest	—	—	—	—	2,171
Net income available to common stockholders	$ 17,244	$ 12,896	$ 11,491	$ 11,069	$ 3,286
Per Share Data:					
Basic net income per share	$ 1.03	$ 0.78	$ 0.70	$ 0.68	$ 0.48
Diluted net income per share	$ 1.02	$ 0.77	$ 0.69	$ 0.66	$ 0.37
Weighted average common stock outstanding					
Basic	16,676,073	16,470,278	16,427,732	16,276,999	6,809,576
Diluted	16,887,882	16,739,387	16,709,471	16,677,387	12,893,290
Consolidated Balance Sheets Data:					
Cash and cash equivalents	$ 13,694	$ 8,529	$ 3,815	$ 5,323	$ 5,855
Net working capital (deficit)	(417)	(7,785)	(4,823)	(4,849)	(2,680)
Total assets	240,728	201,448	179,212	151,162	129,721
Total debt	—	—	8,750	6,000	5,000
Total stockholders' equity	$ 157,065	$ 133,057	$ 118,188	$ 104,488	$ 87,463

(1) We utilize a 52- or 53-week accounting period which ends on the last Sunday of the calendar year. The fiscal year ended December 30, 2012 was comprised of 53 weeks and the other four fiscal years were comprised of 52 weeks.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with Item 6. "Selected Financial Data" and our consolidated financial statements and the related notes to those statements included in Item 8. "Financial Statements and Supplementary Data."

The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading Item 1A. "Risk Factors" and elsewhere in this report.

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

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of our company as of and for the periods presented below.

Overview

We are a fast-growing, full-service restaurant concept offering a distinct menu of authentic, freshly-prepared Mexican and Tex-Mex inspired food. We were founded in Austin, Texas in 1982 by Mike Young and John Zapp, and as of December 25, 2016, we operated 80 Chuy's restaurants across 16 states.

We are committed to providing value to our customers through offering generous portions of made-from-scratch, flavorful Mexican and Tex-Mex inspired dishes. We also offer a full-service bar in all of our restaurants providing our customers a wide variety of beverage offerings. We believe the Chuy's culture is one of our most valuable assets, and we are committed to preserving and continually investing in our culture and our customers' restaurant experience.

Our restaurants have a common décor, but we believe each location is unique in format, offering an "unchained" look and feel, as expressed by our motto "If you've seen one Chuy's, you've seen one Chuy's!" We believe our restaurants have an upbeat, funky, eclectic, somewhat irreverent atmosphere while still maintaining a family-friendly environment.

Our Growth Strategies and Outlook

Our growth is based primarily on the following strategies:

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

We opened twelve restaurants in fiscal 2016. During 2017, we have opened two restaurant as of February 28, 2017, and plan to open a total of twelve to fourteen restaurants for the year. Over the next three to five years, we expect to double our restaurant base. We have an established presence in Texas, the Southeast and the Midwest, with restaurants in multiple large markets in these regions. Our growth plan over the next five years focuses on developing additional locations in our existing core markets and major markets while continuing to "backfill" our smaller existing markets in order to build our brand awareness. For additional discussion of our growth strategies and outlook, see Item 1. "Business—Our Business Strategies."

Newly opened restaurants typically experience normal inefficiencies in the form of higher cost of sales, labor and direct operating and occupancy costs for several months after their opening in both percentage and dollar terms when compared with our more mature, established restaurants. Accordingly, the number and timing of newly opened restaurants has had, and is expected to continue to have, an impact on restaurant opening expenses, cost of sales, labor and occupancy and operating expenses. Additionally, initial restaurant openings in new markets may experience even greater inefficiencies for several months, if not longer, due to lower initial sales volumes, which results from initially low consumer awareness levels, and a lack of operating cost leverage until additional restaurants can be opened in these markets and build the overall consumer awareness in the market.

Performance Indicators

We use the following performance indicators in evaluating our performance:

- *Number of Restaurant Openings*. Number of restaurant openings reflects the number of restaurants opened during a particular fiscal period. For restaurant openings we incur pre-opening costs, which are defined below, before the restaurant opens. Typically new restaurants open with an initial start-up period of higher than normalized sales volumes, which decrease to a steady level approximately six to twelve months after opening. However, operating costs during this initial six to twelve month period are also higher than normal, resulting in restaurant operating margins that are generally lower during the start-up period of operation and increase to a steady level approximately nine to twelve months after opening.
- *Comparable Restaurant Sales*. We consider a restaurant to be comparable in the first full quarter following the eighteenth month of operations. Changes in comparable restaurant sales reflect changes in sales for the comparable group of restaurants over a specified period of time. Changes in comparable sales reflect changes in customer count trends as well as changes in average check. Our comparable restaurant base consisted of 61, 51 and 41 restaurants at December 25, 2016, December 27, 2015 and December 28, 2014, respectively.
- *Average Check*. Average check is calculated by dividing revenue by total entrées sold for a given time period. Average check reflects menu price increases as well as changes in menu mix. Our management team uses this indicator to analyze trends in customers' preferences, effectiveness of menu changes and price increases and per customer expenditures.
- *Average Weekly Customers*. Average weekly customers is measured by the number of entrées sold per week. Our management team uses this metric to measure changes in customer traffic.
- *Average Unit Volume*. Average unit volume consists of the average sales of our comparable restaurants over a certain period of time. This measure is calculated by dividing total comparable restaurant sales within a period of time by the total number of comparable restaurants within the relevant period. This indicator assists management in measuring changes in customer traffic, pricing and development of our brand.
- *Operating Margin*. Operating margin represents income from operations as a percentage of our revenue. By monitoring and controlling our operating margins, we can gauge the overall profitability of our company.

The following table presents operating data for the periods indicated:

	Year Ended		
	December 25, 2016	December 27, 2015	December 28, 2014
Total restaurants (at end of period)	80	69	59
Total comparable restaurants (at end of period)	61	51	41
Average unit volumes (in thousands)	$ 4,581	$ 4,729	$ 4,868
Change in comparable restaurant sales	0.8%	3.1%	3.3%
Average check	$ 14.48	$ 14.23	$ 13.71

Our Fiscal Year

We operate on a 52- or 53-week fiscal year that ends on the last Sunday of the calendar year. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter has 14 weeks. Our 2016, 2015 and 2014 fiscal years each consisted 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 primarily of food, beverage and merchandise related costs. The components of cost of sales are variable in nature, change with sales volume and are subject to increases or decreases based on fluctuations in commodity costs.

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

Operating Costs. Operating costs consist primarily of restaurant-related operating expenses, such as supplies, utilities, repairs and maintenance, travel cost, insurance, 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 insurance and taxes, the amortization of tenant allowances and the adjustment to straight-line rent. These costs are generally fixed but a portion may vary with an increase in sales when the lease contains percentage rent.

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

Marketing. Marketing costs include costs associated with our 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 and closure 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. Closure costs consist of any costs associated with the closure of a restaurant, including lease termination costs, rent payments and other miscellaneous closing costs.

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

Year Ended December 25, 2016 Compared to the Year Ended December 27, 2015

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

	Year Ended					
	December 25, 2016	% of Revenue	December 27, 2015	% of Revenue	Change	% Change
Revenue	$ 330,613	100.0%	$ 287,062	100.0%	$ 43,551	15.2 %
Costs and expenses:						
Cost of sales	85,542	25.9%	75,686	26.4%	9,856	13.0 %
Labor	110,730	33.5%	93,625	32.6%	17,105	18.3 %
Operating	45,900	13.9%	39,954	13.9%	5,946	14.9 %
Occupancy	22,204	6.7%	19,019	6.6%	3,185	16.7 %
General and administrative	17,560	5.3%	16,176	5.6%	1,384	8.6 %
Marketing	2,390	0.7%	2,249	0.8%	141	6.3 %
Restaurant pre-opening	5,348	1.6%	4,417	1.5%	931	21.1 %
Impairment and closure costs	1,517	0.5%	4,360	1.6%	(2,843)	(65.2)%
Depreciation and amortization	15,081	4.6%	12,827	4.5%	2,254	17.6 %
Total costs and expenses	306,272	92.7%	268,313	93.5%	37,959	14.1 %
Income from operations	24,341	7.3%	18,749	6.5%	5,592	29.8 %
Interest expense, net	63	—%	110	—%	(47)	(42.7)%
Income before income taxes	24,278	7.3%	18,639	6.5%	5,639	30.3 %
Income tax expense	7,034	2.1%	5,743	2.0%	1,291	22.5 %
Net income	$ 17,244	5.2%	$ 12,896	4.5%	$ 4,348	33.7 %

Revenue. Revenue increased $43.6 million, or 15.2%, to $330.6 million for the year ended December 25, 2016, as compared to $287.1 million for the year ended December 27, 2015. This increase was primarily driven by $47.0 million in incremental revenue from an additional 596 operating weeks provided by 22 new restaurants opened during and subsequent to the year ended December 27, 2015 and increased revenue at our comparable restaurants. These increases were partially offset by a decrease in revenue related to non-comparable restaurants that are not included in the incremental revenue discussed above. Revenue related to non-comparable restaurants is historically lower as the stores transition out of the 'honeymoon' period that follows a restaurant's initial opening. The honeymoon period refers to the weeks following a restaurant's initial opening, during which sales are typically higher than normal.

Comparable restaurant sales increased 0.8% during the year ended December 25, 2016 compared to the same period in 2015. The increase in comparable restaurant sales was driven primarily by a 1.5% increase in average check, offset by a 0.7% decrease in average weekly customers. Our comparable restaurant sales and average weekly customers were negatively affected by approximately 20 to 40 basis points during fiscal 2016 primarily due to unfavorable weather and Christmas shifting from Friday to Sunday. Our revenue mix attributed to bar sales increased to 18.3% during the year ended December 25, 2016 compared to 18.2% during the same period in 2015.

Cost of Sales. Cost of sales as a percentage of revenue decreased to 25.9% during the year ended December 25, 2016, from 26.4% during the comparable period in 2015, primarily as a result of decreases in grocery and chicken costs, partially offset by increases in produce and beef costs.

Labor Costs. Labor costs as a percentage of revenue increased to 33.5% during the year ended December 25, 2016, from 32.6% during the comparable period in 2015, primarily due to new store labor inefficiencies as we opened twelve new restaurants during 2016 compared to ten new store openings in 2015 and hourly labor rate inflation of approximately 4.0%.

Operating Costs. Operating costs as a percentage of revenue remained flat at13.9% during the year ended December 25, 2016 from the comparable period in 2015.

Occupancy Costs. Occupancy costs as a percentage of revenue increased to 6.7% during the year ended December 25, 2016 from 6.6% during the comparable period in 2015, primarily as a result of higher rental expense as a percentage of sales in our newer locations, offset by lower real estate and personal property taxes in the current year.

General and Administrative Expenses. General and administrative expenses increased $1.4 million, or 8.6%, to $17.6 million for the year ended December 25, 2016, as compared to $16.2 million during the comparable period in 2015.This increase was primarily driven by an increase in management salaries and equity compensation of $1.7 million due to additional headcount to support our growth, $0.5 million in professional services and other miscellaneous administrative expenses offset by a $0.8 million decrease in performance based bonuses.

Marketing Costs. Marketing costs as a percentage of revenue remained relatively flat at0.7% during the year ended December 25, 2016, compared to 0.8% during the comparable period in 2015.

Restaurant Pre-opening Costs. Restaurant pre-opening costs increased by $0.9 million, or 21.1%, to $5.3 million for the year ended December 25, 2016, as compared to $4.4 million during the comparable period in 2015. This increase is primarily the result of differences in the timing of our development schedule. During the year ended December 25, 2016, we incurred pre-opening costs fortwelve new restaurants compared to ten new restaurants during the comparable period in 2015.

Impairment and closure costs. Closure costs were $1.5 million for the year ended December 25, 2016 related to the closure and relocation of one restaurant. Impairment charges were $4.4 million during the comparable period in 2015 related to three underperfoming restaurants.

Depreciation and Amortization. Depreciation and amortization costs increased $2.3 million to $15.1 million for the year ended December 25, 2016, as compared to $12.8 million during the comparable period in 2015, primarily as the result of an increase in equipment and leasehold improvement costs associated with our new restaurants.

Income Tax Expense. Our effective tax rate decreased to 29.0% for the year ended December 25, 2016 from 30.8% during the comparable period in 2015. The decrease in our effective tax rate is primarily related to an increase in employee tax credits as compared to taxable income for the year ended December 25, 2016 as compared to the comparable period in 2015. Additionally, we recorded a $0.4 million tax item to increase our deferred tax liabilities as a result of our federal statutory tax rate increasing from 34% to 35% during the comparable period in 2015. The effective tax rates differ from the statutory rates primarily due to wage and employment tax related credits, non-deductible expenses, and the above discrete item.

Net Income. As a result of the foregoing, net income increased $4.3 million to $17.2 million for the year ended December 25, 2016 from $12.9 million during the comparable period in 2015.

Year Ended December 27, 2015 Compared to the Year Ended December 28, 2014

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

	Year Ended					
	December 27, 2015	% of Revenue	December 28, 2014	% of Revenue	Change	% Change
Revenue	$ 287,062	100.0%	$ 245,101	100.0%	$ 41,961	17.1 %
Costs and expenses:						
Cost of sales	75,686	26.4%	69,159	28.2%	6,527	9.4 %
Labor	93,625	32.6%	82,665	33.7%	10,960	13.3 %
Operating	39,954	13.9%	33,897	13.8%	6,057	17.9 %
Occupancy	19,019	6.6%	15,167	6.2%	3,852	25.4 %
General and administrative	16,176	5.6%	11,693	4.8%	4,483	38.3 %
Marketing	2,249	0.8%	1,719	0.7%	530	30.8 %
Restaurant pre-opening	4,417	1.5%	4,539	1.9%	(122)	(2.7)%
Loss on asset impairment	4,360	1.6%	—	—%	4,360	*
Depreciation and amortization	12,827	4.5%	10,310	4.2%	2,517	24.4 %
Total costs and expenses	268,313	93.5%	229,149	93.5%	39,164	17.1 %
Income from operations	18,749	6.5%	15,952	6.5%	2,797	17.5 %
Interest expense	110	—%	124	0.1%	(14)	(11.3)%
Income before income taxes	18,639	6.5%	15,828	6.4%	2,811	17.8 %
Income tax expense	5,743	2.0%	4,337	1.7%	1,406	32.4 %
Net income	$ 12,896	4.5%	$ 11,491	4.7%	$ 1,405	12.2 %

* Not meaningful.

Revenue. Revenue increased $42.0 million, or 17.1%, to $287.1 million for the year ended December 27, 2015, as compared to $245.1 million for the year ended December 28, 2014. This increase was primarily driven by $39.3 million in incremental revenue from an additional 484 operating weeks provided by 21 new restaurants opened during and subsequent to the year ended December 28, 2014 and increased revenue at our comparable restaurants. These increases were partially offset by a decrease in revenue related to non-comparable restaurants that are not included in the incremental revenue discussed above. Revenue related to non-comparable restaurants is historically lower as the stores transition out of the 'honeymoon' period that follows a restaurant's initial opening. The honeymoon period refers to the weeks following a restaurant's initial opening, during which sales are typically higher than normal.

Comparable restaurant sales increased 3.1% during the year ended December 27, 2015 compared to the same period in 2014. The increase in comparable restaurant sales was driven primarily by a 3.7% increase in average check, offset by a 0.6% decrease in average weekly customers. Our comparable sales were negatively impacted by higher than normal inclement weather throughout the Southeast and Texas during the first quarter of 2015 reducing comparable sales for 2015 by approximately $1.1 million. Our revenue mix attributed to bar sales remained unchanged at 18.2% during the year ended December 27, 2015 compared to the same period in 2014.

Cost of Sales. Cost of sales as a percentage of revenue decreased to 26.4% during the year ended December 27, 2015, from 28.2% during the comparable period in 2014, primarily as a result of decreases in grocery, dairy, produce and chicken costs, partially offset by increases in beef costs.

Labor Costs. Labor costs as a percentage of revenue decreased to 32.6% during the year ended December 27, 2015, from 33.7% during the comparable period in 2014, primarily as a result of efficiencies gained from internal initiatives, including labor scheduling best practices and manager staffing based on volume as well as leverage from increased sales. The implementation of these initiatives started during the first quarter of 2015.

Operating Costs. Operating costs as a percentage of revenue increased to 13.9% during the year ended December 27, 2015 from 13.8% during the comparable period in 2014. The increase was primarily a result of an increase in insurance costs of 20 basis points primarily related to certain provisions of the Affordable Care Act which went into effect in the first quarter of 2015 partially offset by a decreases in liquor taxes and travel related expenses.

Occupancy Costs. Occupancy costs as a percentage of revenue increased to 6.6% during the year ended December 27, 2015 from 6.2% during the comparable period in 2014 primarily as a result of higher rental expense and property taxes at certain of our newly opened restaurants as we continue our expansion into larger markets in the East and Northeast.

General and Administrative Expenses. General and administrative expenses increased $4.5 million, or 38.3%, to $16.2 million for the year ended December 27, 2015, as compared to $11.7 million during the comparable period in 2014. This increase was primarily driven by an increase in performance based bonuses of $2.3 million, an increase in stock-based compensation of $0.7 million associated with new grants under our long-term incentive program, an increase in salary expense of $0.8 million related to additional employees as we continue to strengthen our infrastructure for growth, legal and professional fees of $0.3 million and smaller increases in other categories of $0.4 million.

Marketing Costs. Marketing costs as a percentage of revenue remained relatively constant at 0.8% during the year ended December 27, 2015, compared to 0.7% during the same period in 2014.

Restaurant Pre-opening Costs. Restaurant pre-opening costs decreased by $0.1 million, or 2.7%, to $4.4 million for the year ended December 27, 2015, as compared to $4.5 million for the year ended December 28, 2014. This decrease is primarily due to the opening of ten restaurants during the year ended December 27, 2015 compared to eleven restaurants opened during the comparable period in 2014.

Loss on asset impairment. We review long-lived assets and intangibles subject to amortization for impairment when events or circumstances indicate the carrying value of the assets may not be recoverable. Based upon our analysis performed in the fourth quarter of 2015, we recognized a $4.4 million non-cash loss on asset impairment as a result of the performance at three of our locations. The charge was based on the difference between the carrying value of the restaurants assets and their estimated fair value.

Depreciation and Amortization. Depreciation and amortization costs increased $2.5 million to $12.8 million for the year ended December 27, 2015, as compared to $10.3 million during the comparable period in 2014, primarily as the result of an increase in equipment and leasehold improvement costs associated with our new restaurants.

Income Tax Expense. Due to higher pre-tax income levels and the utilization of the Company's remaining federal net operating loss carryforwards in the first half of 2015, the Company's federal statutory tax rate increased from 34% to 35% in the third quarter of 2015. As a result of the increase in our federal statutory tax rate we recorded a tax item of approximately $0.4 million to increase our net deferred tax liabilities. This tax item was offset by the tax benefit of the non-cash loss on asset impairment of $4.4 million being recorded at the Company's incremental tax rate of 36.9% during 2015. The increase in tax rate, the tax items described above and lower employment tax credits on employee tips as a percentage of pre-tax income increased the Company's effective tax rate to 30.8% from 27.4% during the same period in 2014. The effective tax rates differ from the statutory tax rates of 35% and 34% primarily due to normal recurring tax credits attributable to employment taxes paid on employee tips and the above discrete item related to the increase in our net deferred tax liabilities because of the change in the federal statutory tax rate during the year ended December 27, 2015.

Net Income. As a result of the foregoing, net income increased $1.4 million to $12.9 million for the year ended December 27, 2015 from $11.5 million during the comparable period in 2014.

Liquidity

Our principal sources of cash are net cash provided by operating activities, which includes tenant improvement allowances from our landlords, and borrowings under our Revolving Credit Facility, which we entered into on November 30, 2012 and amended on October 30, 2015. Our need for capital resources is driven by our restaurant expansion plans, ongoing maintenance of our restaurants, investment in our corporate and information technology infrastructure, obligations under our operating leases and interest payments on our debt. Based on our current growth plans, we believe our expected cash flows from operations, expected tenant improvement allowances and available borrowings under our Revolving Credit Facility will be sufficient to finance our planned capital expenditures and other operating activities for at least the next twelve months.

Consistent with many other restaurant and retail chain store operations, we use operating lease arrangements for our restaurants. We believe that these operating lease arrangements provide appropriate leverage of our capital structure in a financially efficient manner. We have entered into operating leases with certain related parties with respect to six of our restaurants and our corporate headquarters. We recently subleased additional office space from certain related parties to expand our corporate headquarters. See "Item 9B. Other Information" for additional details.

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 described in Item 1A. “Risk Factors.”

Cash Flows for the Years Ended December 25, 2016, December 27, 2015 and December 28, 2014

The following table summarizes the statements of cash flows for the years ended December 25, 2016, December 27, 2015 and December 28, 2014 (in thousands):

	Year Ended		
	December 25, 2016	December 27, 2015	December 28, 2014
Net cash provided by operating activities	$ 42,638	$ 45,393	$ 29,135
Net cash used in investing activities	(41,885)	(32,000)	(34,324)
Net cash provided by (used in) financing activities	4,412	(8,679)	3,681
Net increase (decrease) in cash and cash equivalents	5,165	4,714	(1,508)
Cash and cash equivalents at beginning of year	8,529	3,815	5,323
Cash and cash equivalents at end of period	$ 13,694	$ 8,529	$ 3,815

Operating Activities. Net cash provided by operating activities decreased $2.8 million to $42.6 million for the year ended December 25, 2016, from $45.4 million during the same period in 2015. Our business is almost exclusively a cash business. Almost all of our receipts come in the form of cash and cash equivalents and a large majority of our expenditures are paid within a 30 day period. The decrease in net cash provided by operating activities during the year ended December 25, 2016 compared to the same period in 2015 was primarily due to decreases in non-cash reconciling items of $3.6 million and decreases in cash flow from operating assets and liabilities of $3.5 million partially offset by an increase in net income of $4.3 million. The decreases in non-cash reconciling items were primarily related to decreases in excess tax benefits from stock-based compensation of $3.2 million, decreases in impairment and closure costs of $3.0 million and decreases in deferred lease amortization of $0.4 million, offset by increases in depreciation and amortization of $2.3 million as a result of our continued expansion, increases in stock based compensation of $0.5 million and increases in deferred income taxes of $0.4 million. The net decreases from changes in operating assets and liabilities of $3.5 million primarily related to net changes in prepaid expenses and other current assets, income tax receivables and accounts receivable of $2.6 million and net decreases in accounts payable, accrued liabilities and deferred lease incentives of $0.8 million.

Net cash provided by operating activities increased $16.3 million to $45.4 million for the year ended December 27, 2015, from $29.1 million during the same period in 2014. The increase in net cash provided by operating activities during the year ended December 27, 2015 compared to the same period in 2014 was primarily due to an increase in net income of $1.4 million and net increases from changes in operating assets and liabilities of $7.0 million primarily related to increases in accrued liabilities and deferred rent of $4.7 million, deferred lease incentives of $3.6 million, prepaid expenses of $1.0 million offset by decreases in all other operating assets and liabilities of $2.3 million due to timing differences. There were additional increases in non-cash reconciling items primarily related to asset impairments of $4.4 million, increases in depreciation and amortization of $2.5 million as a result of our continued expansion, increases in stock-based compensation of $0.7 million, and increase in the excess tax benefit from stock-based compensation of $0.6 million, offset by a decrease in deferred lease amortization of $0.4 million.

Investing Activities. Net cash used in investing activities increased $9.9 million to $41.9 million for the year ended December 25, 2016, from $32.0 million for the year ended 2015. This change was the result of the timing of our construction schedule and the related construction payments associated with the construction of our twelve new restaurants that opened during the year ended December 25, 2016, as well as expenditures related to four additional unopened restaurants under construction at December 25, 2016 as compared to ten new restaurants opened and six additional restaurants under construction during the comparable period in 2015.

Net cash used in investing activities decreased $2.3 million to $32.0 million for the year ended December 27, 2015, from $34.3 million for the year ended 2014. This change was the result of the timing of our construction schedule and the related construction payments associated with the construction of our ten new restaurants that opened during the year ended December 27, 2015, as well as expenditures related to six additional unopened restaurants under construction at December 27, 2015 as compared to eleven new restaurants opened and four additional restaurants under construction during the comparable period in 2014.

Financing Activities. Net cash provided by financing activities increased $13.1 million to $4.4 million for the year ended December 25, 2016 from $8.7 million used in financing activities during the same period in 2015. This increase in net cash provided by financing activities was primarily the result of an $8.8 million decrease in net payments on the Revolving Credit facility, a $3.2 million increase in excess tax benefits and $1.3 million increase in proceeds from the exercise of stock options during the year ended December 25, 2016. These were partially offset by a decrease of $0.3 million related to the indirect repurchase of shares for minimum tax withholdings.

Net cash used by financing activities increased $12.4 million to $8.7 million for the year ended December 27, 2015 from $3.7 million provided by financing activities during the same period in 2014. This increase in net cash used was primarily the result of $8.8 million in net payments on the Revolving Credit facility during the year ended December 27, 2015, compared to net borrowings of $2.8 million during the comparable period in 2014. Proceeds from the exercise of stock options decreased by $0.2 million during the year ended December 27, 2015 from $0.3 million during the comparable period in 2014. During the year ended December 27, 2015 we also incurred $0.1 million related to the indirect repurchase of shares for minimum tax withholdings. In addition, we recognized $0.6 million less in excess tax benefits from stock-based compensation compared to the same period in 2014.

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

Capital Resources

Long-Term Capital Requirements

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

The capital resources required for a new restaurant depend on whether the restaurant is a ground-up construction or a conversion. For our new unit openings, we estimate the cost of a conversion or ground-up buildout will require a total cash investment of $1.9 million to $2.5 million (net of estimated tenant incentives of between zero and $1.0 million). In addition, we expect to spend approximately $400,000 to $450,000 per restaurant for restaurant pre-opening costs. We currently target a cash-on-cash return beginning in the third operating year of 30.0%, and a sales to investment ratio of 1.9:1 for our new restaurants.

For 2017, we currently estimate capital expenditure outlays will range between $39.0 million and $44.0 million, net of agreed upon tenant improvement allowances and excluding approximately $6.0 million to $6.5 million of restaurant pre-opening costs for new restaurants that are not capitalized. These capital expenditure estimates are based on average new restaurant capital expenditures of $2.5 million (net of estimated tenant improvement allowances) each for the opening of 12 to 14 new restaurants as well as $6.6 million to maintain and remodel our existing restaurants, expand our corporate office and for other general corporate purposes.

Based on our growth plans, we believe our combined expected cash flows from operations, available borrowings under our Revolving Credit Facility and expected tenant improvement allowances will be sufficient to finance our planned capital expenditures and other operating activities in fiscal 2017.

Short-Term Capital Requirements

Our operations have not required significant working capital and, like many restaurant companies, we operate with negative working capital. Restaurant sales are primarily paid for in cash or by credit card, and restaurant operations do not require significant inventories or receivables. In addition, we receive trade credit for the purchase of food, beverages and supplies, therefore reducing the need for incremental working capital to support growth. We had a net working capital deficit of $0.4 million at December 25, 2016, compared to a deficit of $7.8 million at December 27, 2015.

Revolving Credit Facility

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

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

Borrowings under the Revolving Credit Facility generally bear interest at a variable rate based upon our election, of (i) the base rate (which is the highest of prime rate, federal funds rate plus 0.5% or one month LIBOR plus 1%), or (ii) LIBOR, plus, in either case, an applicable margin based on our consolidated total lease adjusted leverage ratio (as defined in the Revolving Credit Facility agreement). Our Revolving Credit Facility also requires payment for commitment fees that accrue on the daily unused commitment of the lender at the applicable margin, which varies based on our consolidated total lease adjusted leverage ratio. In addition, the revolving line of credit requires compliance with a fixed charge coverage ratio, a lease adjusted leverage ratio and certain non-financial covenants as well as places certain restrictions on the payment of dividends and distributions. Under the Revolving Credit Facility, Chuy's may declare and make dividend payments so long as (i) no default or event of default has occurred and is continuing or would result therefrom and (ii) immediately after giving effect to any such dividend payment, on a pro forma basis, the lease adjusted leverage ratio does not exceed 3.50 to 1.00.

As of December 25, 2016, we were in compliance with all covenants under our Revolving Credit Facility. Based on our capital expenditure plans, contractual commitments and cash flow from operations, we expect to be able to comply with these covenants in the near and long term.

Contractual Obligations

The following table summarizes contractual obligations at December 25, 2016 (in thousands):

	Payment Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Contractual Obligations:					
Long-Term Debt Obligations (1)	$ 120	$ 31	$ 63	$ 26	$ —
Operating Lease Obligations (2)	337,437	20,678	42,282	41,480	232,997
Purchase Obligations (3)	25,795	25,795	—	—	—
Total	$ 363,352	$ 46,504	$ 42,345	$ 41,506	$ 232,997

(1) Reflects principal and interest payments on revolver balances and fees on unused revolver commitments under our Revolving Credit Facility. As of December 25, 2016, no indebtedness was outstanding. All amounts under our Revolving Credit Facility are due October 30, 2020.

(2) Reflects the aggregate minimum lease payments for our restaurant operations and corporate office. Operating lease obligations excludes contingent rent payments that may be due under certain of our leases based on a percentage of sales.

(3) Includes contractual purchase commitments for the purchase of goods related to restaurant operations and commitments for construction of new restaurants.

Off-Balance Sheet Arrangements

As part of our on-going business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities referred to as structured finance or variable interest entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of December 25, 2016, we are not involved in any variable interest entities transactions and do not otherwise have any off-balance sheet arrangements.

Critical Accounting Policies

Our consolidated financial statements and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America. Preparing consolidated financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. These estimates and assumptions are affected by the application of our accounting policies. Our significant accounting policies are described in Note 2 to our Consolidated Financial Statements. Critical accounting estimates are those that require application of management’s most difficult, subjective or complex judgments, often as a result of matters that are inherently uncertain and may change in subsequent periods. While we apply our judgment based on assumptions believed to be reasonable under the circumstances, actual results could vary from these assumptions. It is possible that materially different amounts would be reported using different assumptions. The following is a description of what we consider to be our most significant critical accounting policies.

Leases and Leasehold Improvements. We lease land, buildings and/or certain equipment for the majority of our restaurants under noncancelable lease agreements. Our land and building leases typically have initial terms ranging from 10 to 15 years, and certain renewal options for one or more five-year periods. We account for leases in accordance with the provisions of Accounting Standards Codification ("ASC") 840, *Leases*, and other related authoritative guidance. When determining the lease term, we include option periods for which failure to renew the lease imposes a penalty on us in such an amount that a renewal appears, at the inception of the lease, to be reasonably assured. The primary penalty to which we are subject is the economic detriment associated with the existence of leasehold improvements which might become impaired if we choose not to continue the use of the leased property.

Certain of our operating leases contain predetermined fixed escalations of the minimum rent during the original term of the lease. For these leases, we recognize the related rent expense on a straight-line basis over the lease term and record the difference between the amounts charged to operations and amounts paid as deferred rent. We may receive rent holidays, which would begin on the possession date and end on the date construction of the restaurant begins, during which no cash rent payments are typically due under the terms of the lease. Rent holidays are included in the lease term when determining straight-line rent expense.

Additionally, certain of our operating leases contain clauses that provide for additional contingent rent based on a percentage of sales greater than certain specified target amounts. We recognize contingent rent expense prior to the achievement of the specified target that triggers the contingent rent, provided achievement of the target is considered probable. This may result in some variability in rent expense as a percentage of revenues over the term of the lease in restaurants where we pay contingent rent.

We make judgments regarding the probable term for each restaurant property lease, which can impact the classification and accounting for a lease as capital or operating, the rent holiday and/or escalations in payments that are taken into consideration when calculating straight-line rent and the term over which leasehold improvements and deferred lease incentives for each restaurant are amortized. These judgments may produce materially different amounts of depreciation, amortization and rent expense than would be reported if different assumed lease terms were used.

Impairment of Long-Lived Assets. We review 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. We have determined that our asset group for impairment testing is comprised of the assets and liabilities of each of our individual restaurants, as this is the lowest level of identifiable cash flows and primarily includes an assessment of historical cash flows and other relevant factors and circumstances. The other factors and circumstances include changes in the economic environment, changes in the manner in which assets are used, unfavorable changes in legal factors or business climate, incurring excess costs in construction of the asset, overall restaurant operating performance and projections for future performance. These estimates result in a wide range of variability on a year to year basis due to the nature of the criteria.

We regularly review restaurant-level cash flow over the previous 24-month period to determine if potential impairment indicators exist and if further testing is warranted. In such situations, we evaluate future undiscounted cash flow projections in conjunction with qualitative factors and future operating plans. Our impairment assessment process requires the use of estimates and assumptions regarding future undiscounted cash flows and operating outcomes, which are based upon a significant degree of management’s judgment. In performing our impairment testing, we forecast our future undiscounted cash flows by looking at recent restaurant level performance, restaurant level operating plans, sales trends, and cost trends for cost of sales, labor and operating expenses. We believe that this combination of information gives us a fair benchmark to estimate future undiscounted cash flows. We compare this cash flow forecast to the carrying value of the restaurant. Based on this analysis, if we believe the carrying amount of the assets are not recoverable, an impairment charge is recognized based upon the amount by which the long-lived assets carrying value exceeds fair value. As a result of the above mentioned review process, we recognized a of $4.4 million non-cash loss on asset impairment related to three restaurants in fiscal 2015. We did not recognize an impairment charge during fiscal 2016 or 2014.

Continued economic deterioration within our respective markets may adversely impact consumer discretionary spending and may result in lower restaurant sales. Unfavorable fluctuations in our commodity costs, supply costs and labor rates, which may or may not be within our control, may also impact our operating margins. Any of these factors could as a result affect the estimates used in our impairment analysis and require additional impairment tests and charges to earnings. We continue to assess the performance of our restaurants and monitor the need for future impairment. There can be no assurance that future impairment tests will not result in additional charges to earnings.

Goodwill and Other Intangible Assets. Goodwill and indefinite life intangible assets are not amortized but are tested annually on the first day of the fourth quarter, or more frequently if events or changes in circumstances indicate that the assets might be impaired. In assessing the recoverability of goodwill and indefinite life intangible assets, the Company must make assumptions about the estimated future cash flows and other factors to determine the fair value of these assets.

For goodwill, we first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, we calculate the implied estimated fair value of the reporting unit and compare it to the carrying value of the reporting unit, including goodwill. For this impairment evaluation, the Company considers all of its stores in total as one reporting unit. If the reporting unit’s implied estimated fair value exceeds the reporting unit’s carrying value, no impairment of goodwill exists. If the fair value of the reporting unit does not exceed the unit’s carrying value, then an additional analysis is performed to allocate the fair value of the reporting unit to all of the assets and liabilities of that unit as if that unit had been acquired in a business combination and the fair value of the unit was the purchase price. If the excess of the fair value of the reporting unit over the fair value of the identifiable assets and liabilities is less than the carrying value of the unit’s goodwill, an impairment charge is recorded for the difference. Our analysis indicated that no impairments of goodwill or indefinite-lived intangibles occurred during fiscal 2016, 2015 or 2014.

Similarly, the impairment evaluation for indefinite life intangible assets, which includes our trade names, we first perform a qualitative assessment to determine whether it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying value. If it is concluded that this is the case, we calculate the implied estimated fair value of the indefinite-lived intangible asset and compare it to the carrying value. Fair value is estimated primarily using future discounted cash flow projections in conjunction with qualitative factors and future operating plans. When the carrying value exceeds fair value, an impairment charge is recorded for the amount of the difference. An intangible asset is determined to have an indefinite useful life when there are no legal, regulatory, contractual, competitive, economic or other factors that may limit the period over which the asset is expected to contribute directly or indirectly to the future cash flows of the Company. The Company also annually evaluates intangible assets that are not being amortized to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is determined to have a finite useful life, the asset will be amortized prospectively over the estimated remaining useful life and accounted for in the same manner as intangible assets subject to amortization.

Income Taxes. Income tax provisions consist of federal and state taxes currently due, plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized when management considers the realization of those assets in future periods to be more likely than not. Future taxable income, adjustments in temporary difference, available carryforward periods and changes in tax laws could affect these estimates.

Stock-Based Compensation. Compensation cost for stock options and deferred shares (these deferred shares were granted under the Chuy's Holdings, Inc. 2012 Omnibus Equity Incentive Plan, and are referred to as "restricted stock units") granted is determined based on the fair value of the security at the date of grant and is recognized, net of estimated forfeitures, over the award's requisite service period on a straight-line basis. The fair value of the restricted stock units is the quoted market value of our common stock on the date of grant. We use the Black-Scholes valuation model to determine the fair value of our stock options, which requires assumptions to be made regarding our stock price volatility, the expected life of the award, risk-free interest rate, and expected dividend rates. The volatility assumptions were derived from the volatilities of comparable public restaurant companies. If factors change and we employ different assumptions, stock-based compensation expense may differ significantly from what we have recorded in the past. If there is a difference between the assumptions used in determining stock-based compensation expense and the actual factors which become known over time, we may change the input factors used in determining stock-based compensation costs for future grants. These changes, if any, may materially impact our results of operations in the period such changes are made. We expect to continue to grant stock options and restricted stock units in the future, and to the extent that we do, our actual stock-based compensation expense recognized in future periods will likely increase.

Recent Accounting Pronouncements

The information regarding recent accounting pronouncements materially affecting our consolidated financial statements is included in Note 2 to our consolidated financial statements.

Inflation

Our profitability is dependent, among other things, on our ability to anticipate and react to changes in the costs of key operating resources, including food and other raw materials, labor, energy and other supplies and services. Substantial increases in costs and expenses could impact our operating results to the extent that such increases cannot be passed along to our restaurant customers. The impact of inflation on food, labor, energy and occupancy costs can significantly affect the profitability of our restaurant operations.

Many of our restaurant staff members are paid hourly rates related to the federal minimum wage. Labor costs related to hourly wages have been impacted by and will continue to be impacted by mandated increases in minimum wage rates at the federal state and local levels. Certain operating costs, such as taxes, insurance and other outside services increase with the general level of inflation and may also be subject to other cost and supply fluctuations outside of our control.

While we have been able to partially offset inflation and other changes in the costs of key operating resources by gradually increasing prices for our menu items, more efficient purchasing practices, productivity improvements and greater economies of scale, there can be no assurance that we will be able to continue to do so in the future. From time to time, competitive conditions could limit our menu pricing flexibility. In addition, macroeconomic conditions could make additional menu price increases imprudent. There can be no assurance that all future cost increases can be offset by increased menu prices or that increased menu prices will be fully absorbed by our restaurant customers without any resulting changes in their visit frequencies or purchasing patterns. A majority of the leases for our restaurants provide for contingent rent obligations based on a percentage of revenue. There can be no assurance that we will continue to generate increases in comparable restaurant sales in amounts sufficient to offset inflationary or other cost pressures.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

We are subject to interest rate risk in connection with our long-term indebtedness. Our principal interest rate exposure relates to loans outstanding under our Revolving Credit Facility. All outstanding indebtedness under our Revolving Credit Facility bears interest at a variable rate based on LIBOR. Each quarter point change in interest rates on the variable portion of indebtedness under our Revolving Credit Facility would result in an annualized change to our interest expense of approximately $2,500 per every million dollars borrowed. As of December 25, 2016, we had no borrowings under our Revolving Credit Facility.

Commodity Price Risk

We are exposed to market price fluctuation in food product prices. Given the historical volatility of certain of our food product prices, including produce, chicken, beef and cheese, these fluctuations can materially impact our food and beverage costs. While we have taken steps to enter into long term agreements for some of the commodities used in our restaurant operations, there can be no assurance that future supplies and costs for such commodities will not fluctuate due to weather and other market conditions outside of our control.

Consequently, such commodities can be subject to unforeseen supply and cost fluctuations. Dairy costs can also fluctuate due to government regulation. Because we typically set our menu prices in advance of our food product prices, we cannot immediately take into account changing costs of food items. To the extent that we are unable to pass the increased costs on to our customers through price increases, our results of operations would be adversely affected. We do not use financial instruments to hedge our risk to market price fluctuations in our food product prices at this time.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our consolidated financial statements, notes thereto and the report of RSM US LLP, our independent registered public accounting firm, are set forth beginning on page F-1 hereto and are incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our chief executive officer and chief 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 Securities Exchange Act of 1934) 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 Securities Exchange Act of 1934) are effective to provide reasonable assurance that material information required to be included in our periodic SEC reports is recorded, processed, summarized and reported within the time periods specified in the relevant SEC rules and forms.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. As defined in Exchange Act Rule 13a-15(f), internal control over financial reporting is a process designed by, or under the supervision of, our principal executive officer and principal financial officer and effected by our Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements. 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, internal control over financial reporting may not prevent or detect misstatements. Accordingly, even effective internal control over financial reporting can only provide reasonable assurance of achieving their control objectives. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we carried out an evaluation of the effectiveness of our internal control over financial reporting as of December 25, 2016 based on the criteria in "Internal Control — Integrated Framework" (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 25, 2016.

This Annual Report on Form 10-K does not include an attestation report of our independent registered public accounting firm due to a transition period established by the rules of the SEC.

Changes in Internal Control over Financial Reporting

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

ITEM 9B. OTHER INFORMATION

Entry into a Material Definitive Agreement

On December 1, 2016, we entered through our subsidiary Chuy's Opco, Inc. into a sublease with Young Zapp Graceland, Ltd. for additional office space next to the Company's current office space. Young Zapp Graceland, Ltd. is owned by John Zapp and Michael Young, directors of the Company, and Sharon Russell, an executive officer of the Company. The audit committee and the disinterested directors of the board approved the transaction after determining that the transaction was in the ordinary course of the Company's business and was on terms as favorable as would have been obtained by the Company in a comparable arm's length transaction with an independent, unrelated third party.

The sublease began on January 1, 2017 and has a five-year term with an option to extend for an additional five years. The Company will be required to pay rent of $17,292 per month during the first year. This monthly rent amount increases approximately $500 each year. The sublease is a triple net lease and the Company will be responsible for the taxes, insurance and maintenance costs related to the property.

PART III

The information required by Items 10, 11, 12, 13 and 14 will be furnished by an amendment hereto.

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

The following documents are filed as a part of this Report:

(1) Financial Statements - see Index to Financial Statements appearing on page F-1.

(2) Financial Statement Schedules – None.

(3) Exhibits - The exhibits listed on the accompanying Exhibit Index are filed or incorporated by reference as part of this report.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: March 10, 2017

CHUY'S HOLDINGS, INC.

By: /s/ STEVEN J. HISLOP
Steven J. Hislop
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Name	Title	Date
/s/ STEVE HISLOP **Steve Hislop**	Director, President and Chief Executive Officer (principal executive officer)	3/10/2017
/s/ JON HOWIE **Jon Howie**	Vice President and Chief Financial Officer (principal financial and accounting officer)	3/10/2017
/s/ MIKE YOUNG **Mike Young**	Co-Chairman of the Board, Director	3/10/2017
/s/ JOHN ZAPP **John Zapp**	Co-Chairman of the Board, Director	3/10/2017
/s/ STARLETTE JOHNSON **Starlette Johnson**	Director	3/10/2017
/s/ SAED MOHSENI **Saed Mohseni**	Director	3/10/2017
/s/ RANDY DEWITT **Randy DeWitt**	Director	3/10/2017
/s/ IRA ZECHER **Ira Zecher**	Director	3/10/2017

Exhibit Index

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on July 27, 2012)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on October 30, 2013)
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 of Amendment No. 7 to the Registration Statement on Form S-1 (File No. 333-176097), filed on July 11, 2012)
10.1*	Chuy's Holdings, Inc. 2012 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.3 of Amendment No. 7 to the Registration Statement on Form S-1 (File No. 333-176097), filed on July 11, 2012)
10.2*	Form of Restricted Share Agreement (2012 Omnibus Equity Incentive Plan) (incorporated by reference to Exhibit 10.4 of Amendment No. 7 to the Registration Statement on Form S-1 (File No. 333-176097), filed on July 11, 2012)
10.3*	Form of Option Agreement (2012 Omnibus Equity Incentive Plan) (incorporated by reference to Exhibit 10.5 of Amendment No. 7 to the Registration Statement on Form S-1 (File No. 333-176097), filed on July 11, 2012)
10.4*	Form of Restricted Stock Unit Agreement (Amended 2015)(2012 Omnibus Equity Incentive Plan) (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K, filed on March 12, 2015)
10.5*	Form of Option Agreement (Amended 2015)(2012 Omnibus Equity Incentive Plan)(incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on May 8, 2015)
10.6*	Form of Restricted Stock Unit Agreement (2012 Omnibus Equity Incentive Plan) (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on form 10-K, filed on March 11, 2014)
10.7*	Chuy's Holdings, Inc. 2006 Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.8*	Form of Stock Option Award Agreement (2006 Stock Option Plan) (incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.9*	Form of Director and Officer Indemnification Agreement (incorporated by reference to Exhibit 10.8 of Amendment No. 7 to the Registration Statement on Form S-1 (File No. 333-176097), filed on July 11, 2012)
10.10	Letter Agreement regarding Arbor Trails Chuy's, dated November 7, 2006, by and between Chuy's Opco, Inc. and Three Star Management, Ltd. (incorporated by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.11	Recipe License Agreement, dated November 7, 2006, by and between Chuy's Opco, Inc. and MY/ZP IP Group, Ltd. (incorporated by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.12	Cross-Marketing License Agreement, dated November 7, 2006, by and between Chuy's Opco, Inc. and MY/ZP IP Group, Ltd. (incorporated by reference to Exhibit 10.12 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.13*	Management Agreement, dated November 7, 2006, by and between Chuy's Opco, Inc. and Three Star Management, Ltd. (incorporated by reference to Exhibit 10.13 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.14	Management System License Agreement, dated November 7, 2006, by and between Chuy's Opco, Inc. and MY/ZP IP Group, Ltd. (incorporated by reference to Exhibit 10.14 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.15	Parade Sponsorship Agreement, dated November 7, 2006, by and between Chuy's Opco, Inc. and MY/ZP IP Group, Ltd. (incorporated by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.16	Form of License Exercisable Upon Event of Default Under Lease Agreement (incorporated by reference to Exhibit 10.21 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.17	Lease Agreement, dated November 7, 2006, between Young Zapp Graceland, Ltd. and Chuy's Opco, Inc. (incorporated by reference to Exhibit 10.23 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.18	Lease Agreement, dated January 1, 2002, between Young Zapp North Lamar, Ltd. and Chuy's Opco, Inc., as amended, modified and assigned (incorporated by reference to Exhibit 10.24 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.19	Lease Agreement, dated November 1, 1998, between Young-Zapp Joint Venture II and Chuy's Opco, Inc., as amended, modified and assigned (incorporated by reference to Exhibit 10.25 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)

10.20	Lease Agreement, dated November 19, 1996, between Young Zapp Joint Venture-IV and Chuy's Opco, Inc., as amended, modified and assigned (incorporated by reference to Exhibit 10.26 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.21	Lease Agreement, dated January 22, 2001, between Young Zapp JVRR, Ltd. and Chuy's Opco, Inc., as amended, modified and assigned (incorporated by reference to Exhibit 10.27 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.22	Lease Agreement, dated June 1, 2003, between Young Zapp Shenandoah, Ltd. and Chuy's Opco, Inc., as amended, modified and assigned (incorporated by reference to Exhibit 10.28 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.23	Lease Agreement, dated April 22, 2008, between Young Zapp Arbor Trails, Ltd. and Chuy's Opco, Inc. (incorporated by reference to Exhibit 10.29 to the Company's Registration Statement on Form S-1 (File No. 333-176097), filed on August 5, 2011)
10.24	Form of Right to Repurchase Agreement (incorporated by reference to Exhibit 10.30 of Amendment No. 2 to the Registration Statement on Form S-1 (File No. 333-176097), filed on October 27, 2011)
10.25*	Employment Agreement, dated November 16, 2011, between Chuy's Holdings, Inc., Chuy's Opco, Inc. and Steven J. Hislop (incorporated by reference to Exhibit 10.31 of Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-176097), filed on November 17, 2011)
10.26*	Employment Agreement, dated November 16, 2011, between Chuy's Holdings, Inc., Chuy's Opco, Inc. and Jon W. Howie (incorporated by reference to Exhibit 10.32 of Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-176097), filed on November 17, 2011)
10.27*	Form of Employment Agreement, between Chuy's Holdings, Inc., Chuy's Opco, Inc. and certain employees (incorporated by reference to Exhibit 10.33 of Amendment No. 3 to the Registration Statement on Form S-1 (File No. 333-176097), filed on November 16, 2011)
10.28*	Chuy's Holdings, Inc. Senior Management Incentive Plan (incorporated by reference to Exhibit 10.34 of Amendment No. 7 to the Registration Statement on Form S-1 (File No. 333-176097), filed on July 11, 2012)
10.29*	Chuy's Holdings, Inc. Amended and Restated 2006 Stock Option Plan (incorporated by reference to Exhibit 10.37 of Amendment No. 5 to the Registration Statement on Form S-1 (File No. 333-176097), filed on May 17, 2012)
10.30	Credit Agreement, dated November 30, 2012, by and among Chuy's Holdings, Inc., as borrower, the subsidiaries of Chuy's Holdings, Inc., as guarantors, and Wells Fargo Bank, N.A., as administrative agent, swingline lender, issuing lender and lender (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on December 6, 2012)
10.31	First Amendment to the Credit Agreement, dated October 30, 2015, by and among Chuy's Holdings, Inc., as borrower, the guarantors party thereto and Wells Fargo Bank, N.A., as administrative agent (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on November 3, 2015)
10.32+	Sublease Agreement, dated December 1, 2016, between Young Zapp Graceland, Ltd. and Chuy's Opco, Inc.
21.1+	Subsidiary of Chuy's Holdings, Inc.
23.1+	Consent of RSM US LLP
31.1+	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2+	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1+	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002
101.INS+	XBRL Instance Document
101.SCH+	XBRL Taxonomy Extension Schema
101.CAL+	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF+	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB+	XBRL Taxonomy Extension Label Linkbase Document
101.PRE+	XBRL Taxonomy Extension Presentation Linkbase Document

* Indicates management contract or compensatory plan or arrangement.

\+ Filed herewith

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Chuy’s Holdings, Inc.

We have audited the accompanying consolidated balance sheets of Chuy’s Holdings, Inc. and subsidiary (the Company) as of December 25, 2016 and December 27, 2015, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 25, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Chuy's Holdings, Inc. and subsidiary as of December 25, 2016 and December 27, 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 25, 2016, in conformity with U.S. generally accepted accounting principles.

/s/ RSM US LLP

Dallas, Texas

March 10, 2017

CHUY'S HOLDINGS, INC.
Consolidated Balance Sheets
(In thousands, except share and per share data)

	December 25, 2016	December 27, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 13,694	$ 8,529
Accounts receivable	1,132	1,118
Lease incentives receivable	4,022	2,756
Inventories	1,451	1,194
Income tax receivable	2,183	987
Prepaid expenses and other current assets	5,207	2,639
Total current assets	27,689	17,223
Property and equipment, net	165,150	136,493
Other assets and intangible assets, net	1,920	1,763
Trade name	21,900	21,900
Goodwill	24,069	24,069
Total assets	$ 240,728	$ 201,448
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 8,014	$ 7,294
Accrued liabilities	17,757	15,861
Deferred lease incentives	2,335	1,853
Total current liabilities	28,106	25,008
Deferred tax liability, net	13,769	10,281
Accrued deferred rent	9,169	6,908
Deferred lease incentives, less current portion	32,619	26,194
Long-term debt	—	—
Total liabilities	83,663	68,391
Commitments and contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 60,000,000 shares authorized; 16,839,348 shares issued and outstanding at December 25, 2016 and 16,490,600 shares issued and outstanding at December 27, 2015	168	165
Preferred stock, $0.01 par value; 15,000,000 shares authorized and no shares issued or outstanding at December 25, 2016 and December 27, 2015	—	—
Paid-in capital	97,200	90,439
Retained earnings	59,697	42,453
Total stockholders' equity	157,065	133,057
Total liabilities and stockholders' equity	$ 240,728	$ 201,448

See Notes to Consolidated Financial Statements

CHUY'S HOLDINGS, INC.
Consolidated Statements of Income
(In thousands, except share and per share data)

	Fiscal Year Ended		
	December 25, 2016	December 27, 2015	December 28, 2014
Revenue	$ 330,613	$ 287,062	$ 245,101
Costs and expenses:			
Cost of sales	85,542	75,686	69,159
Labor	110,730	93,625	82,665
Operating	45,900	39,954	33,897
Occupancy	22,204	19,019	15,167
General and administrative	17,560	16,176	11,693
Marketing	2,390	2,249	1,719
Restaurant pre-opening	5,348	4,417	4,539
Impairment and closure costs	1,517	4,360	—
Depreciation and amortization	15,081	12,827	10,310
Total costs and expenses	306,272	268,313	229,149
Income from operations	24,341	18,749	15,952
Interest expense, net	63	110	124
Income before income taxes	24,278	18,639	15,828
Income tax expense	7,034	5,743	4,337
Net income	$ 17,244	$ 12,896	$ 11,491
Net income per common share:			
Basic	$ 1.03	$ 0.78	$ 0.70
Diluted	$ 1.02	$ 0.77	$ 0.69
Weighted-average shares outstanding:			
Basic	16,676,073	16,470,278	16,427,732
Diluted	16,887,882	16,739,387	16,709,471

See Notes to Consolidated Financial Statements

CHUY'S HOLDINGS, INC.
Consolidated Statements of Stockholders' Equity
For the Fiscal Years EndedDecember 25, 2016, December 27, 2015 and December 28, 2014
(In thousands, except share and per share data)

	Common Stock				
	Shares	Amount	Paid-in Capital	Retained Earnings	Total
Balance, December 29, 2013	16,385,683	$ 164	$ 86,258	$ 18,066	$ 104,488
Stock-based compensation	—	—	1,278	—	1,278
Proceeds from exercise of stock options	55,223	—	322	—	322
Excess tax benefit from stock-based compensation	—	—	609	—	609
Net Income	—	—	—	11,491	11,491
Balance, December 28, 2014	16,440,906	164	88,467	29,557	118,188
Stock-based compensation	—	—	1,832	—	1,832
Proceeds from exercise of stock options	28,520	1	163	—	164
Excess tax benefit from stock-based compensation	—	—	34	—	34
Settlement of restricted stock units	23,590	—	—	—	—
Indirect repurchase of shares for minimum tax witholdings	(2,416)	—	(57)	—	(57)
Net Income	—	—	—	12,896	12,896
Balance, December 27, 2015	16,490,600	165	90,439	42,453	133,057
Stock-based compensation	—	—	2,352	—	2,352
Proceeds from exercise of stock options	312,165	3	1,468	—	1,471
Excess tax benefit from stock-based compensation	—	—	3,265	—	3,265
Settlement of restricted stock units	46,004	—	—	—	—
Indirect repurchase of shares for minimum tax witholdings	(9,421)	—	(324)	—	(324)
Net Income	—	—	—	17,244	17,244
Balance, December 25, 2016	16,839,348	$ 168	$ 97,200	$ 59,697	$ 157,065

See Notes to Consolidated Financial Statements.

CHUY'S HOLDINGS, INC.
Consolidated Statements of Cash Flows
(In thousands)

	Fiscal Year Ended		
	December 25, 2016	December 27, 2015	December 28, 2014
Cash flows from operating activities:			
Net income	$ 17,244	$ 12,896	$ 11,491
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	15,081	12,827	10,310
Amortization of loan origination costs	33	43	45
Impairment and closure costs	1,367	4,360	—
Stock-based compensation	2,193	1,718	1,054
Excess tax benefit from stock-based compensation	(3,265)	(34)	(609)
Loss on disposal of property and equipment	43	108	30
Amortization of deferred lease incentives	(2,125)	(1,684)	(1,303)
Deferred income taxes	3,488	3,074	3,060
Changes in operating assets and liabilities:			
Accounts receivable	(14)	(196)	(286)
Inventories	(265)	(268)	(221)
Income tax receivable	(1,196)	(1,362)	—
Prepaid expenses and other current assets	(2,574)	448	(586)
Accounts payable	(1,471)	(1,708)	(770)
Accrued liabilities and deferred rent	5,975	7,529	2,853
Deferred lease incentives	8,124	7,642	4,067
Net cash provided by operating activities	42,638	45,393	29,135
Cash flows from investing activities:			
Purchase of property and equipment	(41,566)	(31,628)	(33,936)
Purchase of other assets	(319)	(372)	(388)
Net cash used in investing activities	(41,885)	(32,000)	(34,324)
Cash flows from financing activities:			
Borrowings under revolving line of credit	2,000	1,000	4,250
Payments under revolving line of credit	(2,000)	(9,750)	(1,500)
Loan origination costs	—	(70)	—
Excess tax benefit from stock-based compensation	3,265	34	609
Proceeds from the exercise of stock options	1,471	164	322
Indirect repurchase of shares for minimum tax withholdings	(324)	(57)	—
Net cash provided by (used in) financing activities	4,412	(8,679)	3,681
Net increase (decrease) in cash and cash equivalents	5,165	4,714	(1,508)
Cash and cash equivalents, beginning of period	8,529	3,815	5,323
Cash and cash equivalents, end of period	$ 13,694	$ 8,529	$ 3,815
Supplemental disclosure of non-cash investing and financing activities:			
Property and equipment and other assets acquired by accounts payable	$ 2,191	$ 3,081	$ 2,071
Supplemental cash flow disclosures:			
Cash paid for interest	$ 33	$ 95	$ 175
Cash paid for income taxes	$ 1,385	$ 4,091	$ 632

See Notes to Consolidated Financial Statements

1. Description of Business

Chuy’s Holdings, Inc., a Delaware corporation (the “Company”), through its wholly owned subsidiary, Chuy’s Opco, Inc., owns and operates restaurants in Texas and 16 states in the Southeastern and Midwestern United States. All of the Company’s restaurants operate under the name Chuy’s. The Company had 80, 69, and 59 restaurants, as of December 25, 2016, December 27, 2015, and December 28, 2014, respectively.

Chuy’s was founded in Austin, Texas in 1982 and prior to 2006, operated as Chuy’s Comida Deluxe, Inc. (“Chuy’s”). The Company was incorporated in November 2006.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated.

In fiscal 2016, we separately disclosed our Income tax receivable on the consolidated balance sheet. To conform to the current year presentation, we reclassified the prior year balance that was previously combined in Accrued liabilities.

Fiscal Year

The Company utilizes a 52- or 53-week fiscal year that ends on the last Sunday of the calendar year. The fiscal years ended December 25, 2016, December 27, 2015 and December 28, 2014 each had 52 weeks.

Accounting Estimates

The preparation of the consolidated 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 estimates.

Cash and Cash Equivalents

The Company considers all cash and short-term investments with original maturities of three months or less as cash equivalents. Amounts receivable from credit card processors are considered cash equivalents because they are both short in term and highly liquid in nature, and are typically converted to cash within three business days of the sales transactions.

Lease Incentives Receivable

Lease incentives receivable consist of receivables from landlords provided for under the lease agreements to reimburse the Company for leasehold improvements.

Inventories

Inventories consist of food, beverage, and merchandise and are stated at the lower of cost (first-in, first-out method) or market.

Restaurant Pre-opening Costs

Restaurant pre-opening costs consist primarily of manager salaries, relocation costs, supplies, recruiting expenses, travel and lodging, pre-opening activities, employee payroll and related training costs for employees at the new location. The Company expenses such pre-opening costs as incurred. Pre-opening costs also include rent recorded during the period between date of possession and the restaurant opening date.

Property and Equipment

Property and equipment are recorded at cost, less accumulated depreciation. Equipment consists primarily of restaurant equipment, furniture, fixtures and smallwares. Depreciation is calculated using the straight-line method over the estimated useful life of the related asset, which ranges from 3 to 7 years. Expenditures for major additions and improvements are capitalized. Leasehold improvements are capitalized and amortized using the straight-line method over the shorter of the lease term, including option periods that are reasonably assured of renewal, or the estimated useful life of the asset, which ranges from 5 to 20 years.

Leases

The Company leases land and/or buildings for its corporate office and all of its restaurants under various long-term operating lease agreements. The Company uses a lease life that begins on the date that the Company takes possession under the lease, including the pre-opening period during construction, when in many cases the Company is not making rent payments (“Rent Holiday”).

Certain of the Company's operating leases contain predetermined fixed escalations of the minimum rent during the original term of the lease. For these leases and those with a Rent Holiday, the Company recognizes the related rent expense on a straight-line basis over the lease term and records the difference between the amounts charged to operations and amounts paid, as accrued deferred rent.

In addition, certain of the Company's operating leases contain clauses that provide for additional contingent rent based on a percentage of sales greater than certain specified target amounts. The Company recognizes contingent rent expense prior to the achievement of the specified target that triggers the contingent rent, provided achievement of the target is considered probable.

Leasehold improvements financed by the landlord through lease incentive allowances are capitalized with the lease incentive allowances recorded as deferred lease incentives. Such leasehold improvements are amortized on a straight-line basis over the lesser of the life of the asset or the defined lease term, which includes option periods which are reasonably assured of renewal. Deferred lease incentives are amortized on a straight-line basis over the same defined lease term, and are recorded as a reduction of occupancy expense.

Other Assets and Intangible Assets

Other assets and intangible assets include liquor licenses, lease acquisition costs and loan origination costs and are stated at cost, less accumulated amortization.

Goodwill

Goodwill represents the excess of cost over the fair value of assets of the businesses acquired. Goodwill is not amortized, but is subject to impairment tests at least annually. The Company performs tests to assess potential impairments on the first day of the fourth quarter or during the year if an event or other circumstance indicates that goodwill may be impaired. The impairment evaluation for goodwill is conducted using a three-step process. In the first step, a qualitative assessment is performed to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. The Company considers all of its stores in total as one reporting unit. If it is concluded that this is the case, then a second step is performed by comparing the implied estimated fair value of the reporting unit to the carrying amount, including goodwill. If the estimated fair value is less than the carrying amount, then a third step must be completed in order to determine the amount of the goodwill impairment that should be recorded. In the third step, the implied fair value of the goodwill is determined by allocating fair value to all of its assets and liabilities, other than goodwill, in a manner similar to a purchase price allocation. If the resulting implied fair value of the goodwill that results from the application of this third step is less than the carrying amount of the goodwill, an impairment charge is recorded for the difference. No goodwill impairment charges were recognized during 2016, 2015, or 2014.

Indefinite Life Intangibles

Intangible assets acquired in a business combination and determined to have an indefinite useful life are not amortized because there is no foreseeable limit to the cash flows generated by the intangible asset, and have no legal, contractual, regulatory, economic or competitive limiting factors.

The annual impairment evaluation for indefinite life intangible assets includes a qualitative assessment to determine whether it is more likely than not that the fair value of the indefinite life intangible assets are less than their carrying value. If it is concluded that this is the case, then a second step is performed by comparing the asset's carrying value to the asset's implied estimated fair value. When the carrying value exceeds fair value, an impairment charge is recorded for the amount of the difference. The Company also annually evaluates intangible assets that are not being amortized to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is determined to have a finite useful life, the asset will be amortized prospectively over the estimated remaining useful life and accounted for in the same manner as intangible assets subject to amortization. No indefinite life intangible impairment charges were recognized during 2016, 2015, or 2014.

Impairment of Long-lived Assets

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 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 amount of the restaurant to the estimated fair value. Based on this analysis, if the carrying amount of the restaurant exceeds the estimated fair value, an impairment charge is recognized by the amount by which the carrying amount exceeds the fair value.

As a result of the above mentioned review process, the Company recognized a $4.4 million non-cash loss on asset impairment as a result of the performance related to three restaurants in fiscal 2015. The Company did not recognize an impairment charge during fiscal 2016 or 2014.

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

Estimated Fair Value of Financial Instruments

The Company uses a three-tier value hierarchy, which classifies the inputs used in measuring fair values, in determining the fair value of the Company's non-financial assets and non-financial liabilities. These tiers include: Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. There were no changes in the methods or assumptions used in measuring fair value during the period.

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable at December 25, 2016 and December 27, 2015 approximate their fair value due to the short-term maturities of these financial instruments. The Company's long-term debt has a variable interest rate and therefore re-prices frequently and entails no significant change in credit risk and as a result the fair value approximates the carrying value.

In regards to the Company's impairment analysis, we generally estimate long-lived asset fair values, including property and equipment and leasehold improvements, using either the cost and/or the income approach. The inputs used to determine fair value relate primarily to the assumptions regarding the long-lived assets exit cost at their highest and best use and future assumptions regarding restaurant sales and profitability. These inputs are categorized as Level 3 inputs. The inputs used represent assumptions about what information market participants would use in pricing the assets and are based upon the best information available at the time of the analysis.

Loan Origination Costs

Loan origination costs are capitalized and amortized over the term of the related debt and is included in Interest expense, net on the consolidated statements of income.

Revenue Recognition

Revenue from restaurant operations (food, beverage and alcohol sales) and merchandise sales are recognized upon payment by the customer at the time of sale. Revenues are reflected net of sales tax and certain discounts and allowances.

Proceeds from the sale of gift cards are recorded as deferred revenue at the time of sale and recognized as revenue upon redemption by the customer. Breakage is recognized on unredeemed gift cards based upon historical redemption patterns when the Company determines the likelihood of redemption of the gift card by the customer is remote. Any gift card breakage was immaterial for all periods presented.

Marketing

The Company expenses the printing of menus and other promotional materials as incurred. The costs of community service and sponsorship activities are expensed on the expected timing of those events. Marketing expense was $2.4 million, $2.2 million, and $1.7 million for the years ended December 25, 2016, December 27, 2015 and December 28, 2014, respectively.

Stock-Based Compensation

The Company maintains an equity incentive plan under which it allows the Company's board of directors to grant stock options, restricted stock, and other equity-based awards to directors, officers, and key employees of the Company. The plans provide for granting of options to purchase shares of common stock at an exercise price not less than the fair value of the stock on the date of grant. The Company recognizes stock-based compensation in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 718 ("Topic 718"). Stock-based compensation cost includes compensation cost for all share-based payments granted based on the grant date fair value estimated in accordance with the provisions of Topic 718. Compensation cost is recognized on a straight-line basis, net of estimated forfeitures, over the requisite service period of each award.

Income Tax Matters

Income tax provisions are comprised of federal and state taxes currently due, plus deferred taxes. Deferred tax assets and liabilities are recognized for future tax consequences attributable to the temporary difference between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred tax assets are recognized when management considers the realization of those assets in future periods to be more likely than not. Future taxable income, adjustments in temporary differences, available carryforward periods and changes in tax laws could affect these estimates.

Segment Reporting

ASC Topic No. 280, "Segment Reporting," establishes standards for disclosures about products and services, geographic areas and major customers. The Company currently operates one reporting segment; full-service, casual dining, Mexican food restaurants. Additionally, we operate in one geographic area: the United States of America.

Revenue from customers is derived principally from food and beverage sales and the Company does not rely on any major customers as a source of revenue.

Recent Accounting Pronouncements

The Company's management reviewed all significant newly-issued accounting pronouncements and concluded that, with the exception of the pronouncements below, they either are not applicable to the Company's operations or that no material effect is expected on the Company's consolidated financial statements as a result of future adoption.

Revenue Recognition

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue with Contracts from Customers." ASU 2014-09 supersedes the current revenue recognition guidance, including industry-specific guidance. The guidance introduces a five-step model to achieve its core principal of the entity recognizing revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the FASB issued ASU 2016-04, "Liabilities - Extinguishments of Liabilities: Recognition of Breakage for Certain Prepaid Stored-Value Products." ASU 2016-04 provides specific guidance for the derecognition of prepaid stored-value product liabilities.

These ASU's are effective for interim and annual periods beginning after December 15, 2017 and early adoption is permitted only for interim and annual periods beginning after December 15, 2016. The adoption of these new standards will not have a material impact to our revenue recognition of restaurant sales.

Leases

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

We had operating leases with remaining rental payments of approximately $337.4 million at the end of fiscal 2016. The discounted minimum remaining rental payments will be the starting point for determining the right-of-use asset and lease liability. We believe the adoption of ASU 2016-02 will materially impact our consolidated financial statements by significantly increasing our non-current assets and non-current liabilities on our consolidated balance sheets due to the recognition of the right-of-use assets and related lease liabilities for our existing operating leases. While the new standard is also expected to impact the measurement and presentation of elements of expenses and cash flows related to leasing arrangements, we do not presently believe there will be a material impact on our consolidated statements of income or our consolidated statement of cash flows. We are currently unable to estimate the impact on our consolidated financial statements.

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting." This update simplifies several aspects of the accounting for share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for interim and annual periods beginning after December 15, 2016, and early adoption is permitted.

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

The Company will adopt this standard at the beginning of fiscal year 2017. We are currently evaluating the impact of the updated guidance and believe the adoption of the guidance will impact our accounting for excess tax benefits and deficiencies as all excess tax benefits and deficiencies will be recognized in our income tax expense line item in our consolidated statements of income. We believe the new standard will cause volatility in our effective tax rates and diluted earnings per share due to the tax effects related to share-based payments being recorded in the statements of income in the period in which they occur. The volatility in future periods will depend on our stock price at the awards' vest dates and the number of awards that vest each period. Additionally, our consolidated statements of cash flows will present excess tax benefits, which are currently presented as a financing activity, as an operating activity. We are unable to estimate the impact on our consolidated financial statements due to the variable factors as described above.

3. Net Income Per Share

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

Diluted net income per share of common stock is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential shares of common stock equivalents outstanding during the period using the treasury stock method for dilutive options and deferred shares (such deferred shares granted under the Chuy's Holdings, Inc. 2012 Omnibus Equity Incentive Plan, the "restricted stock units").

There were approximately 1,000, 26,000 and 13,000 shares of common stock equivalents that have been excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive for the years ended December 25, 2016, December 27, 2015 and December 28, 2014, respectively.

The computations of basic and diluted net income per share is as follows:

	Year Ended		
	December 25, 2016	December 27, 2015	December 28, 2014
BASIC			
Net income	$ 17,244	$ 12,896	$ 11,491
Weighted-average common shares outstanding	16,676,073	16,470,278	16,427,732
Basic net income per common share	$ 1.03	$ 0.78	$ 0.70
DILUTED			
Net income	$ 17,244	$ 12,896	$ 11,491
Weighted-average common shares outstanding	16,676,073	16,470,278	16,427,732
Dilutive effect of stock options	211,809	269,109	281,739
Weighted-average of diluted shares	16,887,882	16,739,387	16,709,471
Diluted net income per common share	$ 1.02	$ 0.77	$ 0.69

4. Prepaid Expenses and Other Current Assets

The major classes of prepaid expenses and other current assets atDecember 25, 2016 and December 27, 2015 are summarized as follows:

	December 25, 2016	December 27, 2015
Deposits on equipment	$ 1,143	$ 618
Prepaids	3,694	1,733
Other current assets	370	288
Total prepaids expenses and other current assets	$ 5,207	$ 2,639

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

5. Property and Equipment

The major classes of property and equipment as of December 25, 2016 and December 27, 2015 are summarized as follows:

	December 25, 2016	December 27, 2015
Leasehold improvements	$ 143,494	$ 113,808
Furniture, fixtures and equipment	71,305	57,764
Construction in progress	11,089	10,848
	225,888	182,420
Less accumulated depreciation	(60,738)	(45,927)
Total property and equipment, net	$ 165,150	$ 136,493

Depreciation expense was $15.0 million, $12.7 million and $10.2 million for the years ended December 25, 2016 December 27, 2015, and December 28, 2014, respectively.

6. Other Assets and Intangible Assets

The major classes of other assets and intangibles assets along with related accumulated amortization at December 25, 2016 and December 27, 2015 are summarized as follows:

	Average Life at December 25, 2016	2016 Gross Amount	2016 Accumulated Amortization	2016 Net Amount	2015 Gross Amount	2015 Accumulated Amortization	2015 Net Amount
Finite-lived assets:							
Loan origination costs	3.9	$ 294	$ (169)	$ 125	$ 294	$ (136)	$ 158
Lease acquisition costs	14.4	2,173	(453)	1,720	1,881	(351)	1,530
Total finite-lived assets		2,467	(622)	1,845	2,175	(487)	1,688
Indefinite-lived assets:							
Liquor license		75	—	75	75	—	75
Total indefinite-lived assets		75	—	75	75	—	75
Total other assets and intangible assets		$ 2,542	$ (622)	$ 1,920	$ 2,250	$ (487)	$ 1,763

Amortization expense was $0.1 million for the years ended December 25, 2016, December 27, 2015 and December 28, 2014.

The following table represents the total estimated amortization of finite-lived intangible assets for the five succeeding fiscal years and thereafter:

For the Fiscal Years Ending:	
2017	$ 151
2018	156
2019	155
2020	147
2021	120
Thereafter	1,116
	$ 1,845

7. Long-Term Debt

Revolving Credit Facility

On November 30, 2012, the Company entered into a $25.0 million Revolving Credit Facility with Wells Fargo Bank, National Association. On October 30, 2015, we entered into an amendment to our Revolving Credit Facility to, among other things, (1) extend the maturity date of the Revolving Credit Facility to October 30, 2020 from November 30, 2017 and (2) revise the applicable margins and leverage ratios that determine the commitment fees and interest rates payable by the Company under the Revolving

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

Credit Facility. As of December 25, 2016 and December 27, 2015 the Company had no outstanding indebtedness under the Company's amended Revolving Credit Facility.

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

Borrowings under the Revolving Credit Facility generally bear interest at a variable rate based upon the Company's election, of (i) the base rate (which is the highest of prime rate, federal funds rate plus 0.5% or one month LIBOR plus 1%), or (ii) LIBOR, plus, in either case, an applicable margin based on the Company's consolidated total lease adjusted leverage ratio (as defined in the Revolving Credit Facility agreement). Our Revolving Credit Facility also requires payment for commitment fees that accrue on the daily unused commitment of the lender at the applicable margin, which varies based on our consolidated total lease adjusted leverage ratio.

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

The obligations under the Company's Revolving Credit Facility are secured by a first priority lien on substantially all of the Company's assets.

8. Accrued Liabilities

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

	December 25, 2016	December 27, 2015
Accrued compensation and related benefits	$ 7,572	$ 8,080
Other accruals	3,061	2,778
Sales and use tax	2,200	2,084
Accrued closure costs	1,659	—
Property tax	1,191	1,274
Deferred gift card revenue	2,074	1,645
Total accrued liabilities	$ 17,757	$ 15,861

In fiscal 2016, we separately disclosed our Income tax receivable on the consolidated balance sheet. To conform to the current year presentation, we reclassified the prior year balance that was previously combined in Accrued liabilities.

9. Leases

The Company leases land and buildings for its corporate office and all of its restaurants under various long-term operating lease agreements. The initial lease terms range from 10 years to 20 years and currently expire between 2017 and 2036. The leases include renewal options for 3 to 20 years, which are exercisable at the Company's option. Some of the leases provide for base rent, plus additional rent based on gross sales, as defined in each lease agreement. The Company is also generally obligated to pay certain real estate taxes, insurance and common area maintenance ("CAM") charges, and various other expenses related to properties.

Rent expense is paid to various landlords including several companies owned and controlled by the Company's founders and one of its executive officers. We recently subleased additional office space from certain related parties to expand our corporate headquarters. See "Item 9B. Other Information" for additional details.

Future minimum lease payments under noncancelable operating leases include renewal option periods for certain leases when such option periods are included for purposes of calculating straightline rents. At December 25, 2016, future minimum rentals for each of the next five years and in total are as follows:

CHUY'S HOLDINGS, INC.
Notes to Consolidated Financial Statements (Continued)
(Tabular dollar amounts in thousands, except share and per share data)

	Related Party	Unrelated Parties	Total
Fiscal year ending:			
2017	$ 2,260	$ 18,418	$ 20,678
2018	2,314	19,162	21,476
2019	1,670	19,136	20,806
2020	1,400	19,163	20,563
2021	1,413	19,504	20,917
Thereafter	2,070	230,927	232,997
Total minimum lease payments	$ 11,127	$ 326,310	$ 337,437

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

Rent expense, excluding real estate taxes, CAM charges, insurance, deferred lease incentives and other expenses related to operating leases for the years ended December 25, 2016, December 27, 2015 and December 28, 2014 consists of the following:

	2016	2015	2014
Minimum rent—related parties	$ 1,988	$ 1,901	$ 1,969
Contingent rent—related parties	663	646	600
Total rent—related parties	2,651	2,547	2,569
Minimum rent—unrelated parties	15,419	12,401	9,888
Contingent rent—unrelated parties	312	355	291
Total rent—unrelated parties	15,731	12,756	10,179
Total minimum and contingent rent	$ 18,382	$ 15,303	$ 12,748

10. Employee Benefit Plan

The Chuy's Opco, Inc. 401(k) plan, (the "401(k) Plan"), is a defined contribution plan covering all eligible employees. The 401(k) Plan provides for employee salary deferral contributions up to the maximum amount allowable by the Internal Revenue Service ("IRS"), as well as Company discretionary matching contributions. Company contributions relating to the 401(k) Plan were $229,000, $209,000 and $176,000 for the years ended December 25, 2016, December 27, 2015 and December 28, 2014, respectively.

11. Stock-Based Compensation

The Company has outstanding awards under the 2006 Stock Option Plan (the "2006 Plan"). The outstanding options under the 2006 Plan are fully vested as of December 25, 2016. In connection with the IPO, the Company terminated the 2006 Plan, and no further awards will be granted under the 2006 Plan. The termination of the 2006 Plan did not affect awards outstanding under the 2006 Plan at the time of its termination and the terms of the 2006 Plan continue to govern those outstanding awards.

In connection with the IPO, the Company adopted the Chuy's Holdings, Inc. 2012 Omnibus Equity Incentive Plan (the "2012 Plan") which allows the Company's Board of Directors to grant stock options, restricted stock, restricted stock units and other equity-based awards to directors, officers, and key employees of the Company. The 2012 Plan provides for granting of options to purchase shares of common stock at an exercise price not less than the fair value of the stock on the date of grant. The outstanding options under the 2012 Plan vest 20% on each of the first five anniversaries of the date of grant and have a maximum term of ten years. The outstanding restricted stock units vest ratably on each of the first four or five anniversaries of the date of grant. As of December 25, 2016, a total of 818,257 shares of common stock are reserved and remain available for issuance under the 2012 Plan.

Stock-based compensation cost recognized in the accompanying consolidated statements of income was $2.2 million, $1.7 million and $1.1 million for the years ended December 25, 2016, December 27, 2015 and December 28, 2014, respectively. Stock-based compensation recognized as capitalized development was $160,000, $114,000 and $224,000 for the years ended December 25, 2016, December 27, 2015 and December 28, 2014, respectively. Capitalized stock-based compensation is included in Property and equipment, net on the consolidated balance sheets.

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

Stock Options

A summary of stock-based compensation activity and changes related to stock options for the year ended December 25, 2016 are as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 27, 2015	634,412	$ 11.91		
Granted	—	—		
Exercised	(312,165)	4.71		
Forfeited	(6,220)	31.09		
Outstanding at December 25, 2016	316,027	$ 18.64	4.87	$ 4,545
Exercisable as of December 25, 2016	259,117	$ 16.63	4.57	$ 4,242

The aggregate intrinsic value in the table above is obtained by subtracting the weighted average exercise price from the estimated fair value of the underlying common stock as of December 25, 2016 and multiplying this result by the related number of options outstanding and exercisable at December 25, 2016. The estimated fair value of the common stock as of December 25, 2016 used in the above calculation was $32.95 per share, the closing price of the Company's common stock on December 23, 2016, the last trading day of the year. The total intrinsic value of options exercised was $9.1 million and $0.6 million for the years ended December 25, 2016 and December 27, 2015, respectively. During the years ended December 25, 2016, December 27, 2015 and December 28, 2014 the total fair value of options vested was $0.5 million, $0.6 million, and $0.6 million, respectively.

The weighted-average grant date fair value of options granted was $11.12 per share, during the year ended, December 28, 2014, as estimated at the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions (no options were granted during the years ended December 25, 2016 and December 27, 2015):

	2014
Dividend yield	—%
Expected volatility	37%
Risk-free rate of return	1.58%
Expected life (in years)	5

The assumptions above represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. The expected term of options granted was based on a representative peer group with similar employee groups and expected behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury constant maturities rate in effect at the time of grant. The Company utilized a weighted rate for expected volatility based on a representative peer group within the industry.

There was approximately $0.4 million of total unrecognized compensation costs related to options granted under the 2006 Plan and the 2012 Plan as of December 25, 2016. These costs will be recognized ratably through the year 2019.

One significant factor in determining the fair value of the Company's options, when using the Black-Scholes option pricing model, is the fair value of the common stock underlying those stock options. The fair value of the Company's common stock is based on the market price as quoted by the Nasdaq Stock Market.

Restricted Stock Units

A summary of stock-based compensation activity and changes related to restricted stock units for the year ended December 25, 2016 are as follows:

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

	Shares	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 27, 2015	165,111	$ 29.72	
Granted	94,402	34.36	
Vested	(46,004)	30.89	
Forfeited	(6,759)	30.03	
Outstanding at December 25, 2016	206,750	$ 31.57	2.60

The fair value of the restricted stock units is the quoted market value of our common stock on the date of grant. As of December 25, 2016, total unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately $4.8 million, which is expected to be recognized ratably through the year 2021.

12. Impairment and Closure Costs

We recorded impairment and closure costs of $1.5 million and $4.4 million for the years ended December 25, 2016 and December 27, 2015, respectively, related to long-lived asset impairments or costs associated with the closure of restaurants. There were no impairment or closure costs recognized for the year ended December 28, 2014.

Impairment and closure costs in 2016 included $1.5 million of closure costs associated with the closure and relocation of one restaurant.

Impairment and closure costs in 2015 included $4.4 million of impairment costs associated with three restaurants.

13. Income Taxes

The provision for federal and state income taxes for the years ended December 25, 2016, December 27, 2015 and December 28, 2014 consisted of the following:

	2016	2015	2014
Current income tax expense:			
Federal	$ 2,933	$ 1,724	$ —
State	613	945	713
Total current income tax expense	3,546	2,669	713
Deferred income tax expense:			
Federal	2,827	2,903	3,506
State	661	171	118
Total deferred income tax expense	3,488	3,074	3,624
Total income tax expense	$ 7,034	$ 5,743	$ 4,337

Temporary difference between tax and financial reporting basis of assets and liabilities that give rise to the deferred income tax assets (liabilities) and their related tax effects as of December 25, 2016 and December 27, 2015 are as follows:

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

	2016	2015
Deferred tax assets:		
Accrued liabilities	$ 17,236	$ 588
General business tax credits	12,653	8,135
Stock-based compensation	1,222	1,121
Other	403	309
Total deferred tax assets	31,514	10,153
Deferred tax liability:		
Intangibles	(10,609)	(9,523)
Prepaid expenses	(1,673)	(1,371)
Property and equipment	(33,001)	(9,540)
Total deferred tax liabilities	(45,283)	(20,434)
Deferred tax liabilities, net	$ (13,769)	$ (10,281)

We have approximately $9.2 million and $0.1 million of tax benefits ($3.3 million and $0.0 million net of tax, respectively) related to excess stock compensation which were recorded to additional paid-in-capital during the fiscal years ended December 25, 2016 and December 27, 2015, respectively. Under the "tax law ordering" method, as described in ASC 740, these amounts were also used as tax deductions and reduced taxable income for fiscal year ended December 25, 2016 and the amount of net operating loss carry forward utilized during fiscal year ended December 27, 2015. As of December 25, 2016, the Company has general business tax credits of $12.7 million expiring in 2035.

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 are 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. The Company believes that it will realize all of the deferred tax assets. Therefore, no valuation allowance has been recorded.

The following is a reconciliation of the expected federal income taxes at the statutory rate of 35% for the fiscal years ended December 25, 2016 and December 27, 2015, and 34% for the fiscal year ended and December 28, 2014 to the actual provision for income taxes:

	2016	2015	2014
Expected income tax expense	$ 8,497	$ 6,524	$ 5,382
State tax expense, net of federal benefit	829	725	548
FICA tip credit	(1,936)	(1,924)	(1,615)
Other	(356)	418	22
Income tax expense	$ 7,034	$ 5,743	$ 4,337

Federal tax standards require that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than 50%) that the position would be sustained upon examination by tax authorities. A recognized tax position is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The standards also require that changes in judgment that result in subsequent recognition, derecognition or change in a measurement of a tax position taken in a prior annual period (including any related interest and penalties) be recognized as a discrete item in the interim period in which the change occurs. As of December 25, 2016 and December 27, 2015 the Company recognized no liability for uncertain tax positions.

It is the Company's policy to include any penalties and interest related to income taxes in its income tax provision. However, the Company currently has no penalties or interest related to income taxes.

14. Commitments and Contingencies

The Company is involved in various claims and legal actions arising in the normal course of business. In the opinion of management, the ultimate disposition of these matters will not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

15. Related Party Transactions

The Company leases its corporate office and six restaurant locations from entities owned by its founders and one of its executive officers. See Note 9 Leases.

In addition, the Company entered into a management agreement in November 2006 with Three Star Management, Ltd. (an entity owned by its founders) to provide management services, such as administrative, accounting and human resources support, to Three Star Management's restaurants. In connection with this agreement, the Company received management fees of $40,000 for fiscal years 2016, 2015 and 2014.

16. Quarterly Financial Data (Unaudited)

The following tables set forth certain unaudited consolidated financial information for each of the four quarters in fiscal years 2016 and 2015:

	2016			
	March 29	June 28	September 27	December 27
Revenue	$ 78,054	$ 87,909	$ 85,597	$ 79,053
Income from operations (1)	6,489	8,330	6,740	2,782
Net income(1)	4,532	5,780	4,599	2,333
Basic net income per share	$ 0.27	$ 0.35	$ 0.70	$ 0.14
Diluted net income per share	$ 0.27	$ 0.34	$ 0.27	$ 0.14
	2015			
	March 30	June 29	September 28	December 28
Revenue	$ 66,829	$ 75,362	$ 73,910	$ 70,961
Income from operations (2)	4,603	7,597	6,612	(63)
Net income(2)	3,235	5,373	4,069	219
Basic net income per share	$ 0.20	$ 0.33	$ 0.25	$ 0.01
Diluted net income per share	$ 0.19	$ 0.32	$ 0.24	$ 0.01

(1) Contains closure costs that decreased income from operations by $0.4 million and $1.1 million and net income by $0.3 million and $1.0 million related to one restaurant in the third and fourth quarter of 2016, respectively.

(2) Contains loss on asset impairment that decreased income from operations by $4.4 million and net income by $2.7 million related to three restaurants in the fourth quarter of 2015.

17. Subsequent Events

Subsequent to December 25, 2016, the Company opened two new restaurants, for a total of 82 restaurants in 16 states.

SUBLEASE AGREEMENT

between

YOUNG ZAPP GRACELAND, LTD., a Texas limited partnership, as Landlord

and

CHUY'S OPCO, INC., a Delaware corporation, as Tenant

December 1, 2016

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SUBLEASE AGREEMENT

THIS SUBLEASE AGREEMENT (this "**Lease**") is entered into as of December 1, 2016, by and between the Landlord and the Tenant named below.

W I T N E S S E T H:

Landlord has leased from American Lebanon Association, Inc., a Texas corporation ("**Master Landlord**") the real property that is defined below as the "Premises" pursuant to a separate Lease Agreement (the "**Master Lease**"), a copy of which has been delivered to Tenant. Landlord and Tenant have agreed that Tenant will sublease the Premises from Landlord on the terms and conditions set forth in this Lease.

ARTICLE 1
Definitions and Basic Provisions

Section 1.1

(a) "**Landlord**": Young Zapp Graceland, Ltd., a Texas limited partnership.

(b) Landlord's Address: c/o 1623 Toomey Road, Austin, Texas 78704, Attn.: Sharon Russell, with copy to Michael R. Young at 200 Buckeye Trail, Austin, Texas 78746.

(c) "**Tenant**": Chuy's Opco, Inc., a Delaware corporation.

(d) Tenant's Address: 1623 Toomey Road, Austin, Texas 78704, Attn.: Sharon Russell.

(e) "**Premises**": 127.5 ft. x 300 ft. Abs. 8 Survey 20, Decker I in Travis County, Texas.

(f) "**Buildings**": Those certain buildings situated on the Premises estimated to contain 13,200 square feet of enclosed area.

(g) "**Commencement Date**": January 1, 2017.

(h) "**Lease Term**": The period beginning on the Commencement Date and ending December 31, 2021. The Lease Term may be extended by Tenant for 1 term of 5 years in accordance with the provisions of **Exhibit A** attached hereto. "**Lease Term**" includes all valid renewals or extensions thereof, unless the context clearly indicates to the contrary.

(i) "**Base Rent**": The Base Rent is payable as provided in Section 3.1 in the amounts set forth below during the period of time indicated:

Time Period:	Monthly Base Rent:
January 1, 2017 - December 31, 2017	$16,320.00/month
January 1, 2018 - December 31, 2018	$16,865.00/month
January 1, 2019 - December 31, 2019	$17,405.00/month

January 1, 2020 - December 31, 2020	$17,950.00/month
January 1, 2021 - December 31, 2021	$18,490.00/month
January 1, 2022 - December 31, 2022	$20,065.00/month*
January 1, 2023 - December 31, 2023	$20,610.00/month*
January 1, 2024 - December 31, 2024	$21,150.00/month*
January 1, 2025 - December 31, 2025	$21,700.00/month*
January 1, 2026 - December 31, 2026	$22,240.00/month*

*If Tenant properly exercises the renewal option set forth in **Exhibit A**.

(j) "**Permitted Use**": Use in strict compliance with the Master Lease for general and administrative offices, test kitchen and warehouse purposes, and uses incidental and ancillary thereto.

(k) Initial Expense Payment: $5,559.00 per month.

(l) "**Security Deposit**": $15,000.00

Section 1.2 Each of the foregoing definitions and basic provisions shall be used in conjunction with, and limited by references thereto in, other provisions of this Lease.

ARTICLE 2
Relationship to Master Lease; Lease Grant

Section 2.1 This Lease is subject and subordinate to the Master Lease. If the Master Lease terminates, this Sublease will terminate. Other than Landlord's obligation to pay to Master Landlord the monthly base rent due under the Master Lease, Tenant will comply with and perform all obligations of Landlord to Master Landlord under the Master Lease with respect to the Premises as if Tenant had leased the Premises directly from Master Landlord under the Master Lease. These obligations include, without limitation, repair, maintenance, insurance, and indemnification obligations. If the Master Lease requires Master Landlord's consent as to any action, Tenant must obtain the consent of both Landlord and Master Landlord before taking such action. Whenever the Master Lease requires Landlord to indemnify Master Landlord for any matter, Tenant shall indemnify both Master Landlord and Landlord with respect to such matter. The only services, amenities and rights to which Tenant is entitled under this Lease are those to which Landlord is entitled under the Master Lease with respect to the Premises subject to all the provisions, restrictions and conditions imposed under the Master Lease. Any costs assessed against Landlord by Master Landlord under this Lease as a result of Tenant's breach of any provision of the Master Lease will be paid by Tenant upon Landlord's demand. In the event of a conflict between the requirements of this Lease and the Master Lease the more restrictive will control.

Section 2.2 Subject to the provisions of Section 2.1, Landlord leases, demises and lets unto Tenant, and Tenant takes from Landlord, the Premises, beginning on the Commencement Date and ending on the last day of the Lease Term unless sooner terminated as herein provided.

ARTICLE 3
Rent and Security Deposit

Section 3.1 Tenant agrees to pay to Landlord in monthly installments the "**Adjusted Rent**", which is the sum of the monthly Base Rent and the monthly "**Expense Payment**" (as each may vary from time to time), without deduction or setoff, for each month of the Lease Term. Tenant shall pay the first installment of Adjusted Rent to Landlord on the Commencement Date, and thereafter installments shall be due and payable without demand on or before the first day of each succeeding month during the Lease Term.

Section 3.2 Under the Master Lease, Landlord must pay monthly based on estimates all Taxes (defined in Section 16.2) against the Premises and Buildings, all costs of Master Landlord's insurance, and all CAM expenses. All costs payable monthly by Landlord under the Master Lease (excluding base rent), together with an annual administrative charge in consideration of Landlord's time, costs and expenses incurred in connection with the Master Lease and this Lease (the "**Administration Charge**") are referred to herein collectively as the "**Expenses**"). Tenant will pay the Expenses as a component of Adjusted Rent based on the estimates of Landlord or Master Landlord. Tenant will deposit with Landlord each month an amount (an "**Expense Payment**") equal to 1/12 of the estimated Expenses for the applicable calendar year. Landlord may use the Expense Payments to pay such costs directly or to Master Landlord. The initial Expense Payment is the amount specified in Section 1.1(k) above. Thereafter, the Expense Payment will be based upon Master Landlord's and/or Landlord's estimates of the cost of the Expenses for any calendar year of the Lease Term, and shall be reconciled annually. If the reconciliation reveals that Tenant's total Expense Payments are less than the actual cost of the Expenses, Tenant shall pay the difference to Landlord within 10 days after Landlord delivers to Tenant a statement therefor. If the reconciliation reveals that Tenant's total Expense Payments are more than the actual cost of the Expenses, Landlord shall credit the difference to Tenant's Expense Payment account. Landlord shall have no obligation to pay interest to Tenant for Tax Escrow Payments made by Tenant and Landlord may commingle the funds received by Tenant pursuant to this Section with Landlord's general funds. Tenant's obligation to pay the Expenses shall survive the termination of this Lease, and a final reconciliation of the Expense Payments will be made within 30 days after Landlord's receipt of a tax bill for such final year of this Lease.

Section 3.3 Landlord shall hold the Security Deposit without liability for interest and may co-mingle the Security Deposit with Landlord's general funds. The Security Deposit secures Tenant's performance under this Lease, and is not an advance payment of Rent or a measure of damages if a default occurs. Landlord may apply the Security Deposit towards delinquent Rent or to reimburse Landlord for any other damage, injury, expense or liability resulting from Tenant's breach of this Lease. If Landlord applies any of the Security Deposit, upon demand Tenant shall restore the Security Deposit to its original amount. After this Lease terminates, any portion of the Security Deposit to which Tenant is entitled shall be refunded within the time period set forth in Section 93.005 of the Texas Property Code (or any successor to same). If, however, Tenant vacates the Premises before this Lease terminates (including after termination of Tenant's right of possession), Tenant shall not be entitled to a return of the Security Deposit until after this Lease actually terminates or Landlord accepts a surrender of the Premises, and **Tenant expressly waives the provisions of Section 93.005 of the Texas Property Code to the extent such Section may be held to require a return of the Security Deposit before such a termination.** If Landlord transfers its interest in the Premises during the Lease Term, Landlord may assign the Security Deposit to the transferee and thereafter shall have no further liability for the return of the Security Deposit.

Section 3.4 If all or part of any sum which Tenant owes to Landlord hereunder is not received within 5 days after the due date thereof, then (without in any way implying Landlord's consent to such late payment) Tenant, to the extent permitted by law, agrees to pay, in addition to the amount so due, a late payment charge equal to 5% of the amount which is overdue, it being understood that said late payment charge shall be to reimburse Landlord for the additional costs and expenses which Landlord presently expects to incur in connection with the handling and processing of late payments by Tenant to Landlord. Further, if Tenant fails to pay all or any part of any sum due hereunder within 10 days after the due date thereof, then, in any such event, Tenant shall pay Landlord interest on such overdue amount(s) from the due date thereof until paid at an annual rate (the "**Past Due Rate**") which equals the lesser of (i) 18% or (ii) the highest rate then permitted by law.

Section 3.5 Tenant's covenants and obligations to pay Adjusted Rent and any other sum due hereunder (collectively, the "**Rent**") shall be unconditional and independent of any other covenant or condition imposed on either Landlord or Tenant, whether under this Lease, at law or in equity.

ARTICLE 4
Intentionally Deleted

ARTICLE 5
Leasehold Improvements

Section 5.1 **Tenant acknowledges and agrees that Landlord has not made, and will not make any representations or warranties, express or implied (expressly including, without limitation, warranties of habitability or fitness for a particular purpose) as to the condition of the Premises or the Buildings, or with respect to the suitability of either for the purpose herein intended. THIS INCLUDES LATENT OR PATENT DEFECTS IN THE BUILDINGS AND PREMISES WHICH ARE EXPRESSLY WAIVED BY TENANT. By Tenant's execution of this Lease, Tenant agrees to accept the Premises and Buildings in their "AS IS" condition, and as suitable for the purpose herein intended. Tenant further agrees that Tenant may not require Landlord to maintain or repair in any manner the Premises or Buildings (but Landlord agrees to use commercially reasonable efforts to enforce Master** ***Landlord's maintenance obligations under the Master Lease).***

ARTICLE 6
Use

Section 6.1 Tenant shall use the Premises only for the Permitted Use, in strict compliance with the terms of the Master Lease, and for no other purpose or purposes without Landlord's prior written consent. Tenant shall not at any time leave the Premises vacant, but shall in good faith continuously throughout the Lease Term conduct and carry on upon the Premises the type of business for which the Premises are leased.

Section 6.2 Tenant shall not occupy or use the Premises, or permit any portion of the Premises to be occupied or used, for any use or purpose which is unlawful in part or in whole or deemed by Landlord to be disreputable in any manner or extra hazardous on account of fire, nor keep anything upon the Premises nor permit anything to be done on or around the Premises that will in any way invalidate, or increase the rate of insurance on the Buildings.

Section 6.3 Tenant shall not permit any objectionable or unpleasant odors to emanate from the Premises; nor place or permit any radio, television, loud-speaker or amplifier outside the Buildings; nor place an antenna, awning or other projection on the exterior of the Buildings; nor take any other action which in Landlord's exclusive judgment would constitute a nuisance or would disturb or endanger neighboring properties; nor do anything which would tend to injure the reputation of the Premises.

Section 6.4 Tenant shall maintain the Premises to the standard required by the Master Lease. Tenant shall store all trash and garbage on the Premises in a neat and sanitary manner and arrange for the regular pick-up of such trash and garbage at Tenant's expense. Tenant shall not operate an incinerator or burn trash or garbage upon the Premises.

Section 6.5 Tenant shall procure, at Tenant's sole expense, any permits and licenses required for the transaction of business by Tenant in the Premises and, at Tenant's sole expense, will comply with all laws, ordinances, orders, rules and regulations (state, federal, municipal and other agencies or bodies having any jurisdiction thereof) with reference to the use, condition or occupancy of the Premises.

ARTICLE 7
Maintenance and Repair

Section 7.1 Except for Master Landlord's obligations under the Master Lease, Tenant shall, throughout the Lease Term, keep and maintain the Buildings and the Premises (and to the extent required in the Master Lease, adjacent areas) in a good, clean condition of repair and maintenance. This obligation includes, but is not limited to the air conditioning and heating systems, plumbing and electrical systems, water and sewer facilities and gas lines from their point of entry onto the Premises; all interior and exterior components of the Buildings; and all driveways, parking areas, landscaping, drainage or filtration facilities or other improvements situated upon the Premises as well as adjacent alleys, and landscaping. **The Master Lease prohibits Tenant from taking any action, or walking, on the roofs of the Buildings; if Tenant violates this prohibition Tenant will pay on demand all costs assessed against Landlord by Master Landlord under the Master Lease. Further, Tenant must comply with the provisions of the Lease regarding servicing of the HVAC units and changing of air filters, and if Master Landlord elects to assume responsibility for any such servicing or air filter changes, Tenant must pay the amount charged by Master Landlord in connection with same as a part of the Expenses. Graffiti must be removed within 3 days as required by the Master Lease.** Tenant shall not perform any acts or carry on any practices which might damage the structural integrity of the Buildings. If any repairs or maintenance required to be made by Tenant are not made within 10 days after written notice from Landlord to Tenant, Landlord may (but has no obligation to) make such repairs or perform such maintenance, without liability to Tenant for any loss or damage which may result to its stock or business by reason of such repairs or maintenance, and Tenant shall pay to Landlord, as additional Rent hereunder, the cost of such repairs or maintenance plus 20% of such cost (as an administrative fee) within 10 days after Tenant's receipt of a statement from Landlord. Tenant further agrees not to commit or allow any waste or damage to be committed on any portion of the Premises. Tenant agrees that upon the expiration or earlier termination of this Lease, Tenant shall deliver up the Premises to Landlord in as good condition as of the Commencement Date, ordinary wear and tear excepted. Tenant further acknowledges that Landlord shall not be required to perform any maintenance or to make any improvements or repairs of any kind or character on or to the Buildings, Premises, or any portion of either, during the Lease Term. In the event maintenance that is the obligation of Master Landlord under the Master Lease is required, Tenant shall so notify Landlord and Landlord shall take commercially reasonable actions to require Master Landlord to perform such maintenance.

ARTICLE 8
Alterations

Section 8.1 Tenant shall not make any alterations, additions or improvements to the Premises without the prior written consent of Landlord and Master Landlord except to the extent expressly permitted by the Master Lease. **The Master Lease prohibits painting of masonry walls.** All alterations, additions, improvements or fixtures (whether temporary or permanent in character), but excluding Tenant's personal property and trade fixtures, made in or upon the Premises, either by Landlord or Tenant, shall be Landlord's property on termination of this Lease (subject to Master Landlord's rights in same) and shall remain a part of the Premises without compensation to Tenant, or at Landlord's or Master Landlord's election, shall be removed by Tenant. All furniture and unattached, movable trade fixtures and equipment installed in the Premises by Tenant may be removed by Tenant at the termination of this Lease if Tenant so elects, and shall be so removed if required by Landlord or Master Landlord. If any such property is not removed, Landlord may either declare such property abandoned (in which event it shall become Landlord's or Master Landlord's property) or may remove such property from the Premises and store same at Tenant's sole risk and expense. If Landlord or Master Landlord requires the removal of any alterations, additions, improvements or fixtures, Tenant shall, at its expense, repair and restore any portion of the Premises damaged by such removal. All such installations, removals and restorations shall be accomplished in good, workmanlike manner so as not to damage the Premises or the primary structure or structural qualities of the Building or the plumbing, electrical lines or other utilities.

Section 8.2 All construction work done by Landlord or Tenant upon the Premises shall be performed in a good and workmanlike manner, in compliance with all governmental requirements, and the requirements of the Master Lease. Tenant will indemnify Landlord and hold Landlord harmless against any loss, liability or damage resulting from any such work performed by or on behalf of Tenant. Tenant shall, upon Landlord's request, furnish bonds or other security satisfactory to Landlord against any such loss, liability or damage.

Section 8.3 Tenant will not permit any mechanic's lien or liens to be placed upon the Premises or any portion thereof, caused by or resulting from any work performed, materials furnished or obligation incurred by or at the request of Tenant, and in the case of the filing of any such lien, Tenant will immediately pay and discharge the same. If any lien remains against the Premises for 15 days, Landlord, at Landlord's option, may pay same or any portion thereof without inquiry as to the validity thereof, and any amounts so paid, including expenses and interest, shall be so much additional rent hereunder due from Tenant to Landlord and shall be repaid to Landlord (together with interest at the Past Due Rate from the date paid by Landlord) within 10 days after Tenant's receipt of a statement from Landlord therefor.

ARTICLE 9
Landlord's Right of Access

Section 9.1 Landlord may enter upon the Premises at all reasonable hours (or, if an emergency, at any hour) (a) to inspect same or clean or make repairs or alterations or additions as Landlord may deem necessary (but without any obligation to do so), (b) to show the Premises to prospective tenants, purchasers, lenders or Master Landlord or (c) for any other reasonable purpose; and Tenant shall not be entitled to any abatement or reduction of Rent by reason thereof, nor shall such be deemed to be an actual or constructive eviction; provided, however, that Landlord will use reasonable efforts to minimize disruption to Tenant's business in connection with any such entry. Master Landlord will have all rights of entry to the Premises and all rights to place signs advertising the Premises for lease set out in the Master Lease on the terms contained in the Master Lease.

ARTICLE 10
Signs; Building Exterior

Section 10.1 Without first obtaining Landlord's (and where required by the Master Lease, Master Landlord's) written consent, Tenant shall not (i) make any changes to or paint the exterior of the Buildings; (ii) install any exterior lighting, decorations or paintings; or (iii) erect or install any signs, window or door lettering, placards, decorations or advertising media of any type which can be viewed from the exterior of the Buildings. All signs, decorations and advertising media shall be subject to Landlord's prior written approval as to construction, method of attachment, size, shape, height, lighting, color and general appearance, which approval shall not be unreasonably withheld, conditioned or delayed. All signs shall be kept in good condition and in proper operating order at all times, and shall comply with all ordinances and regulations of the City of Austin. Tenant, at Tenant's sole expense, shall obtain permits from the City of Austin for all of Tenant's signs.

Section 10.2 Upon vacation of the Premises, Tenant must remove its signs unless Landlord or Master Landlord specify in writing signs that must remain. If and when Tenant removes or alters its signs (for any reason including vacation), Tenant shall repair, repaint, and/or replace the Building fascia surface where signs are or were attached.

ARTICLE 11
Utilities and Services

Section 11.1 Tenant shall timely pay all charges for electricity, water, gas, telephone service, sewer service, trash and other utilities and services furnished to the Premises (including without limitation all connection fees) and promptly shall pay any maintenance charges therefor.

Section 11.2 Landlord shall not be liable for any interruption or failure whatsoever in utility service.

ARTICLE 12
Indemnity; Insurance

Section 12.1 Landlord shall not be liable or responsible to Tenant for any loss or damage to any property or person occasioned by theft, act of God, public enemy, injunction, riot, strike, insurrection, war, court order, requisition or order of governmental body or authority, any similar matter, or any other cause whatsoever, except for the negligence or willful misconduct of Landlord or Landlord's duly authorized agents or employees. Landlord shall not be liable to Tenant, or to Tenant's agents, servants, employees, customers or invitees and Tenant shall indemnify, defend and hold Landlord harmless from and against any and all fines, suits, claims, demands, losses, liabilities, actions and costs (including court costs and attorney's fees) arising from (a) any injury to person or damage to property caused by any act, omission or neglect of Tenant, Tenant's agents, servants, employees, customers or invitees, (b) Tenant's use of the Premises, or the conduct of Tenant's business or profession, (c) any activity, work, or thing done, permitted or suffered by Tenant in or about the Premises, or (d) any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, including without limitation, Tenant's obligation to perform the obligations of Landlord under the Master Lease. **THIS INDEMNITY SHALL APPLY REGARDLESS OF WHETHER THE LOSS IN QUESTION ARISES OR IS ALLEGED TO ARISE IN PART FROM ANY NEGLIGENT ACT OR OMISSION OF LANDLORD OR LANDLORD'S AGENTS OR EMPLOYEES, FROM STRICT LIABILITY OF ANY SUCH PERSONS OR OTHERWISE, BUT IN SUCH EVENT TENANT SHALL NOT BE RESPONSIBLE FOR THAT PORTION OF ANY LOSS WHICH IS HELD TO BE CAUSED BY THE NEGLIGENCE OR STRICT LIABILITY OF LANDLORD OR LANDLORD'S AGENTS OR EMPLOYEES.** Tenant will not be liable for indirect or consequential damages.

Section 12.2 Tenant, at Tenant's sole expense, shall obtain and maintain during the Lease Term all policies (including the commercial general liability insurance policy) required as "Lessee's Insurance" under the Master Lease and described in the Definitions and Basic Provisions and Section 5.05(c) of the Master Lease in accordance with the terms and conditions of the Master Lease. Tenant is solely responsible for maintaining property insurance on all alterations and improvements made by Tenant to the Premises.

Section 12.3 Tenant waives any cause of action it might have against Landlord on account of any loss or damage that is insured against under any property insurance policy (to the extent that such loss or damage is recoverable under such insurance policy) that covers the Buildings, the Premises, Tenant's fixtures, personal property or business and which names Tenant as a party insured, and agrees to provide to Landlord evidence that Tenant's insurance carrier has endorsed all such property policies waiving the carrier's rights of recovery under subrogation or otherwise against Landlord.

Section 12.4 In addition to the remedies provided in Article 18 of this Lease, if Tenant fails to maintain the insurance required by this Article, Landlord may, but is not obligated to, obtain such insurance, and Tenant shall pay to Landlord upon demand as additional Rent the premium cost thereof plus interest at the Past Due Rate from the date of payment by Landlord until repaid by Tenant.

Section 12.5 All policies of insurance which Tenant is required to carry shall be issued in the forms required herein by good and solvent insurance companies licensed to do business in the State of Texas with a Best's Rating of "A" or higher and a Financial Size Category of VIII or higher. Each such policy shall be issued in the name of Tenant, but Landlord, Master Landlord and any other party in interest designated by Landlord or Master Landlord (such as a lender, partner, partner's officers, brokers or property managers) shall be named as additional insured parties on the liability policies required herein in the manner required by the Master Lease. Such policies shall be for the mutual and joint benefit and protection of Tenant, Landlord, Master Landlord and any such other party in interest. Certificates of each policy of commercial general liability insurance shall be delivered to Landlord, Master Landlord and such other additional insured parties as Landlord may request prior to the delivery of the Premises to Tenant. Thereafter certificates of each commercial general liability insurance policy shall be so delivered before the expiration of each existing policy. If any insurance policy required hereunder shall expire or terminate, a renewal or additional policy shall be procured and maintained by Tenant in like manner and to like extent. All commercial general liability and property policies shall contain a provision that the company writing said policy will give to Landlord and other additional insured parties at least 30 days notice in writing (10 days for nonpayment) in advance of any cancellation or lapse. Tenant's liability policies shall be written as primary policies which do not contribute to and are not in excess of coverage which Landlord may carry.

ARTICLE 13
Fire or Other Casualty

Section 13.1 Tenant immediately shall deliver written notice to Landlord of any damage caused to the Premises by fire or other casualty.

Section 13.2 If the Premises is damaged or destroyed by fire or other casualty, the Premises will be restored or this Lease will terminate as provided in the Master Lease. Landlord will notify Tenant of Master Landlord's determination of whether to terminate or repair, or of Master Landlord's obligation to repair, if applicable. **Landlord has no obligation to repair or restore the Premises or the Buildings, Tenant agreeing that such repair or restoration is the responsibility of Master Landlord under the Master Lease.** If the rent under the Master Lease abates in whole or in part after a casualty, Landlord shall allow Tenant a reduction of Rent on the same basis and during the same time period as the adjustment of rent under the Master Lease. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Premises shall be for the sole benefit of the party carrying such insurance and under its sole control.

ARTICLE 14
Condemnation

Section 14.1 If any of the Premises is taken or condemned in whole or in part for public purposes, or sold in lieu of condemnation, the Premises will be restored or this Lease will terminate as provided in the Master Lease. Landlord will notify Tenant of Master Landlord's determination of whether to terminate or repair, or of Master Landlord's obligation to repair, if applicable. **Landlord has no obligation to repair or restore the Premises or the Buildings, Tenant agreeing that such repair or restoration is the responsibility of Master Landlord under the Master Lease.** Tenant will be entitled to any award for the taking of Tenant's personal property, trade fixtures and for Tenant's moving expenses.

ARTICLE 15
Assignment and Subletting

Section 15.1 Tenant shall not assign this Lease, nor sublet the Premises or any part thereof, without the prior written consent of both Landlord and Master Landlord. No assignment or subletting by Tenant, even if approved by Landlord and Master Landlord, will relieve Tenant of any obligations under this Lease. Consent of Landlord or Master Landlord to a particular assignment, sublease or other transaction shall not be deemed consent to any other or subsequent transaction.

Section 15.2 If Landlord and Master Landlord consent to any subletting or assignment by Tenant, and subsequently any category of rent received by Tenant under any such sublease exceeds the same category of rent payable to Landlord under this Lease, or any additional consideration is paid to Tenant by the assignee under any such assignment, Landlord may, at its option, either (1) declare such excess rent under any sublease or such additional consideration for any assignment to be due and payable by Tenant to Landlord as additional rent hereunder, or (2) cancel this Lease and at Landlord's option, enter into a lease directly with such assignee or subtenant, without liability to Tenant.

Section 15.3 If Tenant requests approval of an assignment of this Lease or a sublease of the Premises, Landlord may elect, at Landlord's sole option, to terminate this Lease, and if Landlord chooses, to enter into a lease directly with the proposed assignee or subtenant. Landlord shall have 30 days after the date Tenant notifies Landlord that Tenant desires to assign this Lease or sublet the Premises to notify Tenant of Landlord's election to terminate, and if applicable, to enter into such a new lease. Tenant shall cooperate with Landlord to effect any such new lease.

Section 15.4 Landlord shall have the right to transfer and assign, in whole or in part, all its rights and obligations hereunder and in the Master Lease, and in such event and upon assumption by the transferee of Landlord's obligations hereunder (any such transferee to have the benefit of, and be subject to, the provisions of this Lease), no further liability or obligation shall thereafter accrue against Landlord hereunder. Tenant agrees to look solely to such successor in interest to Landlord for the performance of any of Landlord's obligations hereunder.

Section 15.5 Any liquidation of Tenant shall constitute an assignment for the purpose of this Lease. Tenant shall not sell, transfer, exchange, distribute or otherwise dispose of more than 30% of its assets (excluding the Lease) without the prior written consent of Landlord.

Section 15.6 Tenant agrees that it shall not place (or permit any employee or agent to place) any signs on or about the Premises, or conduct (or permit any employee or agent to conduct) any public advertising which includes any pictures, renderings, sketches or other representations of any kind of the Premises (or a portion thereof) with respect to any proposed assignment of this Lease or subletting of the Premises or any part thereof, without Landlord's and Master Landlord's prior written consent.

Section 15.7 Tenant shall not mortgage, pledge, hypothecate or otherwise encumber (or grant a security interest in) this Lease or any of Tenant's rights hereunder.

Section 15.8 Landlord may charge a reasonable fee for processing any request by Tenant for an assignment or sublease of the Premises, and Tenant will pay any fee or charge assessed by the Master Landlord in connection with processing a request by Tenant for an assignment or sublease of the Premises. Acceptance of such fee or charge by Landlord or Master Landlord shall not be deemed Landlord's or Master Landlord's consent to any such action.

Section 15.9 If Tenant assigns this Lease or sublets the Premises with Landlord's and Master Landlord's consent as provided herein, any option then held by Tenant (such as an option to renew this Lease) shall terminate automatically concurrently with the assignment or sublease.

ARTICLE 16
Property Taxes

Section 16.1 Tenant shall pay all taxes levied or assessed against all personal property, furniture, fixtures or equipment situated on the Premises.

Section 16.2 Tenant shall pay as a part of the Expense Payment all real property taxes, general and special assessments, license fees and other charges of every description (the "**Taxes**") which during the Lease Term may be levied upon or assessed against the Premises, the Buildings and all interests therein and all improvements and other property thereon, whether belonging to Landlord or Tenant, or to which either of them may become liable. If, at any time during the Lease Term, the present method of taxation shall be changed so that in lieu of the whole or any part of any taxes, assessments, levies or charges levied, assessed or imposed on the Premises and the Buildings, there shall be levied, assessed or imposed on Landlord a capital levy or other tax directly on the rents received therefrom and/or a franchise tax, assessment, levy or charge measured by or based, in whole or in part, upon such rents from the Premises, then all such taxes, assessments, levies or charges, or the part thereof so measured or based, shall be deemed included within the term "**Taxes**" for the purposes of this Article.

ARTICLE 17
Events of Default

Section 17.1 The following events shall be deemed to be events of default by Tenant under this Lease:

(a) Tenant shall fail to pay when due any Rent or other sums payable by Tenant hereunder, and such failure continues for 3 days after written notice from Landlord.

(b) Tenant shall fail to comply with or observe any other provision of this Lease within 15 days after written notice by Landlord to Tenant specifying wherein Tenant has failed to comply with or observe such provision; provided, however, that if the nature of Tenant's obligation is such that more than 15 days are required for its performance, then Tenant shall not be deemed to be in default if Tenant shall commence such performance within such 15-day period and thereafter diligently prosecute same to completion.

(c) Tenant shall make an assignment for the benefit of creditors.

(d) Any petition shall be filed by or against Tenant under any section or chapter of the United States Bankruptcy Code, as amended, or under any similar law or statute of the United States or any State thereof; or Tenant shall be adjudged bankrupt or insolvent in proceedings filed thereunder; or Tenant shall admit that it cannot meet its financial obligations as they become due.

(e) A receiver or trustee shall be appointed for all or substantially all of the assets of Tenant.

(f) Tenant shall abandon the Premises. For purposes of this Lease, Tenant shall be deemed to have abandoned the Premises if Tenant fails to utilize the Premises for the purpose permitted herein for 10 or more consecutive days.

(g) The business operated by Tenant shall be closed for failure to pay sales tax required by the State of Texas, or for any other reason.

(h) Tenant shall be in default beyond any period for cure under a certain Lease Agreement between Landlord and Tenant dated November 7, 2006, as amended from time to time, for certain premises locally known as 1623 Toomey Road, Austin, Texas.

If Landlord is required to notify Tenant of any default under the provisions of this Lease, such obligation shall terminate following the second notice of default delivered to Tenant within any 12 month period during the Lease Term.

Section 17.2 Landlord is not in default in the performance of any obligation required to be performed by Landlord hereunder unless and until Landlord fails to perform such obligation within 30 days after written notice from Tenant to Landlord specifying in detail Landlord's failure; provided, however, that if the nature of Landlord's obligation is such that more than 30 days are appropriate for performance, then Landlord shall not be deemed to be in default if Landlord begins performing within said 30-day period and diligently continues performance through completion. Unless and until Landlord fails to so cure any default after such notice, Tenant shall not have any remedy or cause of action by reason thereof. To the extent permitted by applicable law, Tenant hereby waives the provisions of §91.004(b) of the Texas Property Code (or any successor thereto), and any other laws which may grant to Tenant a lien upon any of Landlord's property or upon any Rent due to Landlord. The obligations of the landlord hereunder will be binding upon a party who is the tenant under the Master Lease only during the period such person is the tenant under the Master Lease and not before or after such time. Upon the transfer by a tenant under the Master Lease of its interest in the Premises, such tenant shall thereupon be released and discharged from all covenants and obligations of the landlord under this Lease that accrue after the date of such transfer (but such covenants and obligations shall be binding during the Lease Term upon each new tenant for the duration of such tenant's ownership of the tenant's interest in the Master Lease). Notwithstanding any other provision hereof, Landlord shall have no personal liability hereunder whatsoever for any damages, consequential or otherwise, and Tenant shall not recover any personal or money judgment against Landlord for any reason.

ARTICLE 18
Remedies

Section 18.1 Upon the occurrence of any event of default by Tenant, Landlord shall have the option to pursue any and all remedies which Landlord then may have hereunder or at law or in equity, including, without limitation, any one or more of the following, in each case, without any notice or demand whatsoever.

(a) Terminate this Lease by notice in writing to Tenant in which event Tenant shall immediately surrender the Premises to Landlord, and if Tenant fails to do so, Landlord may, without prejudice to any other remedy which it may have for possession or arrearage in rent, enter upon and take possession of the Premises. To the extent permitted by Texas law, Tenant agrees to pay to Landlord on demand the amount of all loss and damage which Landlord may suffer by reason of such termination, whether through inability to relet the Premises on satisfactory terms or otherwise, including the amounts described in (b)(i) to (b)(vi) below.

(b) Enter upon and take possession of the Premises, and relet all or any part of the Premises on such reasonable terms as Landlord may elect (including, without limitation, such concessions and free rent as Landlord deems necessary or desirable) and receive the rent therefor, and Tenant agrees (y) to pay to Landlord on demand any deficiency that may arise by reason of such reletting for the remainder of the Lease Term, and (z) that Tenant shall not be entitled to any rent or other payments received by Landlord in connection with such reletting even if such rent or other payments exceed the amounts that otherwise would be payable to Landlord under this Lease. Tenant will be liable immediately to Landlord for all costs Landlord incurs in repossessing and reletting the Premises, including, without limitation, brokers' commissions, reasonable attorney's fees incurred in connection with the reletting and Tenant's default hereunder, expenses of repairing, altering and remodeling the Premises required by the reletting, and like costs. Alternatively, Landlord may repossess the Premises and sue to recover the following amounts:

(i) the worth at the time of award of any unpaid rent which had been earned at the time of termination (of possession or of this Lease, as applicable); plus

(ii) the worth at the time of award of the amount by which the unpaid rent which would have been earned after such termination until the time of award exceeds the amount of such rental loss which Tenant proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the Lease Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iv) any other amount, including court costs, expenses of repossessing the Premises and expenses of restoring the Premises to a good condition of repair, necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform Tenant's obligations under this Lease or which in the ordinary course of things would be likely to result therefrom;

(v) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law; and

(vi) all reasonable attorneys' fees incurred by Landlord relating to the default and termination of this Lease plus interest on all sums due Landlord by Tenant at the Past Due Rate.

As used in subparagraphs (i) and (ii) above, the "worth at the time of award" is to be computed by allowing interest at the Past Due Rate.

As used in subparagraph (iii) above, the "worth at the time of award" is to be computed by discounting such amount at the discount rate of the Federal Reserve Bank of New York at the time of the award plus 1%.

The term "**Rent**" as used herein shall be deemed to be and to mean the Base Rent, the Expense Payment, and all other sums required to be paid by Tenant pursuant to the terms of this Lease.

(c) Make such payments or enter upon the Premises and perform whatever Tenant is obligated to do under the terms of this Lease; and Tenant agrees to reimburse Landlord on demand for any expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this Lease (including reasonable attorney's fees), and Tenant further agrees that Landlord shall not be liable for, and expressly releases Landlord from, any damages resulting from such actions, **expressly including damages arising from Landlord's negligent acts or omissions**.

Section 18.2 Landlord may alter and/or change all locks or other security devices at the Premises in connection with any entry upon the Premises by Landlord as permitted in this Article. Landlord may lock out, expel or remove Tenant and any other person who may be occupying the Premises or any part thereof without being liable for prosecution or any claim for damages therefor, **expressly including damages arising from Landlord's negligent acts or omissions upon the Premises**. If Landlord alters or changes any lock or other security device, Landlord shall place a written notice on the main entrance of the Premises stating the name and location or telephone number of the person from whom the new key, combination or means of access may be obtained. The new key, combination or means of access shall be provided only during Landlord's regular business hours and Landlord shall not be required to provide to Tenant such new key, combination or means of access unless and until Tenant has cured all defaults hereunder. The provisions of this Section 18.2 supersede all provisions of §93.002 of the Texas Property Code (or any successor thereto). No re-entry or taking possession of the Premises by Landlord shall be construed as an election by Landlord to terminate this Lease unless a written notice of such intention be given to Tenant. Notwithstanding any such reletting or re-entry or taking possession, Landlord may at any time thereafter terminate this Lease for a previous default.

Section 18.3 Landlord may collect, from time to time, by suit or otherwise, each installment of rent (or portion thereof as represents any deficiency after a reletting) as it becomes due hereunder. Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies herein provided or any other remedies provided by law, nor shall pursuit of any remedy herein provided constitute a forfeiture or waiver of any rent due to Landlord hereunder or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants herein contained. Landlord's acceptance of rent following an event of default hereunder shall not be construed as Landlord's waiver of such event of default. No waiver by Landlord of any violation or breach of any of the terms, provisions and covenants herein contained shall be deemed or construed to constitute a waiver of any other violation or default. No payment by Tenant or receipt by Landlord of any amount less than the amounts due by Tenant hereunder shall be deemed to be other than on account of the amounts due by Tenant hereunder, nor shall any endorsement or statement on any check or document accompanying any payment be deemed an accord and satisfaction.

Section 18.4 If Landlord terminates Tenant's right of possession of the Premises without terminating this Lease, Landlord shall make reasonable efforts to relet all or any part of the Premises on such terms as Landlord shall deem reasonable (including, without limitation, such concessions, leasehold improvements, and free rent as Landlord deems necessary or desirable) by, within 60 days after such termination of possession of the Premises, (i) placing a "For Lease" sign at the Premises, (ii) either (a) advertising the Premises in commercial real estate marketing publications in Austin, Texas, or (b) entering into a listing agreement with a real estate agent for the lease of the Premises, and (iii) showing the Premises to prospective tenants who request to see the Premises. **Tenant expressly agrees that if Landlord takes**

the measures set forth in this Section, Landlord shall be deemed to have taking objectively reasonable measures to relet the Premises.

Section 18.5 If Landlord takes possession of the Premises as permitted herein, then Landlord may keep in place and use all of the furniture, fixtures and equipment at the Premises, including that which is owned by or leased to Tenant at all times prior to any foreclosure thereon by Landlord or repossession thereof by a lessor thereof or third party having a lien thereon. Landlord also may remove from the Premises (without the necessity of obtaining a distress warrant, writ of sequestration or other legal process) all or any portion of such furniture, fixtures, equipment and other property located thereon and place same in storage at any premises within Travis County, Texas; and in such event, Tenant shall be liable to Landlord for costs incurred by Landlord in connection with such removal and storage and shall indemnify and hold Landlord harmless from all loss, damage, cost, expense and liability in connection with such removal and storage. Landlord shall also have the right to relinquish possession of all or any portion of such furniture, fixtures, equipment and other property to any person ("**Claimant**") claiming to be entitled to possession thereof who presents to Landlord a copy of any instrument represented to Landlord by Claimant to have been executed by Tenant (or any predecessor of Tenant) granting Claimant the right under various circumstances to take possession of such furniture, fixtures, equipment or other property, without the necessity on the part of Landlord to inquire into the authenticity of said instrument's copy of Tenant's or Tenant's predecessor's signature thereon and without the necessity of Landlord's making any nature of investigation or inquiry as to the validity of the factual or legal basis upon which Claimant purports to act. Tenant agrees to indemnify and hold Landlord harmless from all cost, expense, loss, damage and liability incident to Landlord's relinquishment of possession of all or any portion of such furniture, fixtures, equipment or other property to Claimant, **expressly including costs, expenses, loss, damage or liability arising out of Landlord's negligent acts or omissions**. The rights of Landlord herein stated shall be in addition to any and all other rights which Landlord has or may hereafter have at law or in equity; and Tenant stipulates and agrees that the rights herein granted Landlord are commercially reasonable.

ARTICLE 19
Intentionally Deleted

ARTICLE 20
Holding Over

Section 20.1 Should Tenant fail to surrender the Premises, or any part thereof, on the expiration of the Lease Term, unless otherwise agreed in writing by Landlord, such holding over shall constitute and be construed as a tenancy at will only, at a daily rental equal to 200% of 1/30th of the monthly Base Rent payable for the last month of the Lease Term; provided, however, that if the Master Lease is automatically renewed on a month-to-month basis because of Tenant's failure to timely vacate the Premises on the expiration of the Lease Term, Tenant must pay holdover rent for the entire holdover period under the Master Lease. All provisions of this Lease except for those pertaining to Base Rent and Lease Term shall apply to Tenant's holdover occupancy. The inclusion of the preceding sentences shall not be construed as Landlord's consent for Tenant to hold over.

ARTICLE 21
Subordination; Lender Provisions

Section 21.1 This Lease is and shall be, at the option and upon written declaration of Landlord, subject, subordinate and inferior to any deeds of trust, mortgages or other instruments of security, as well as to any ground leases, master leases or primary leases (collectively, "**Encumbrances**"), that now or hereafter cover all or any part of the Premises or any interest of Landlord therein, and to any and all advances made on the security thereof, and to any and all increases, renewals, modifications, extensions and replacements thereof. Landlord hereby expressly reserves the right, at its option and declaration, to place Encumbrances on and against the Premises and/or any part thereof and/or any interest of Landlord therein, superior in effect to this Lease and the estate created hereby. To further assure the foregoing subordination, Tenant shall, upon Landlord's request, together with the request of any mortgagee or beneficiary under any such deed of trust or mortgage, or of any lessor under any such ground lease, master lease or primary lease (collectively, a "**Holder**"), execute any instrument (including without limitation an amendment to this Lease that does not materially and adversely affect Tenant's rights or duties hereunder) or instruments intended to subordinate this Lease or to evidence the subordination of this Lease to any such Encumbrance.

Section 21.2 In the event of the enforcement by any Holder of its rights under any Encumbrance, Tenant will, upon request of any person or party succeeding to the interest of Landlord as a result of such enforcement, attorn to and automatically become the tenant of such successor in interest without change in the terms or other provisions of this Lease, and this Lease shall continue in full force and effect; provided, however, that such successor in interest shall not be bound by (i) any payment of rent or additional rent for more than one month in advance except prepayments in the nature of security for the performance by Tenant of its obligations under this Lease actually delivered to the successor in interest, or (ii) any amendment or modification of this Lease made without the written consent of the Holder or successor in interest. Upon request by such successor in interest, Tenant shall execute and deliver an instrument confirming the attornment herein provided for. At Tenant's request, Landlord shall use reasonable efforts to obtain a nondisturbance agreement from any Holder.

Section 21.3 If the Premises or any part thereof is at any time subject to an Encumbrance, this Lease or any of the Rent is assigned to the Holder thereof, and Tenant is given written notice thereof, including the post office address of such assignee, Tenant shall not exercise any remedy for a default on the part of Landlord without first giving written notice by certified mail, return receipt requested, to such Holder, specifying the default in reasonable detail, and affording such Holder a reasonable opportunity to make performance, at its election, for and on behalf of Landlord.

ARTICLE 22
Brokerage

Section 22.1 Tenant warrants that it has had no dealings with any broker or agent in connection with the negotiations or execution of this Lease, and Tenant agrees to indemnify Landlord against all costs, expenses, attorneys' fees or other liability for commissions or other compensations or charges claimed by any broker or agent claiming the same by, through or under Tenant for this Lease, or any renewals, extensions, amendments, addenda or expansions with respect to this Lease.

ARTICLE 23
Estoppel Certificates

Section 23.1 Tenant shall furnish from time to time when requested by Landlord, a Holder or prospective Holder, or a prospective purchaser of the Premises, a certificate signed by Tenant confirming and containing such factual certifications and representations deemed appropriate by the party requesting the certificate, and Tenant shall, within 10 days after receipt of said proposed certificate from Landlord, return a fully executed copy of said certificate to Landlord. Tenant's failure to return a fully executed copy of such certificate to Landlord within the foregoing 10-day period, shall be an event of default under this Lease without the necessity of any further notice from Landlord, and Landlord immediately may exercise all rights under Article 18 above.

ARTICLE 24
Notices

Section 24.1 Each provision of this Lease, or of any applicable governmental laws, ordinances, regulations, and other requirements with reference to the sending, mailing or delivery of any notice, or with reference to the making of any payment or request by Tenant or Landlord, shall be deemed to be complied with when and if the following steps are taken:

(a) All Rent and other payments required to be made by Tenant to Landlord hereunder shall be payable to, and must be received by, Landlord on the date due and at Landlord's Address set forth in Section 1.1(b) or at such other address as Landlord may specify from time to time by written notice delivered in accordance herewith (following any such notice, the new address shall be deemed "**Landlord's Address**").

(b) Any notice, request or document (excluding Rent and other payments) permitted or required to be delivered hereunder must be in writing and shall be deemed to be received upon receipt if hand delivered, and whether or not received when deposited in the United States mail, postage prepaid, certified mail (with or without return receipt requested), addressed to Landlord at Landlord's Address and addressed to Tenant at Tenant's Address set forth in Section 1.1(d) or at such other address as either of said parties have theretofore specified by written notice delivered in accordance herewith; provided, however, that in all events Landlord shall have the right to give Tenant notice at the Premises.

If and when included within the term "**Tenant**" as used in this instrument there are more than one person, firm or corporation, all shall arrange among themselves for their joint execution of such notices specifying some individual at some specific address for the receipt of notices and payments to Tenant. All parties included with term "**Tenant**" shall be bound by notices and payments given in accordance with the provisions of this Article to the same effect as if each had received such notice or payment.

ARTICLE 25
Miscellaneous

Section 25.1 If any clause or provision of this Lease is illegal, invalid or unenforceable under present or future laws effective during the Lease Term, then and in that event, it is the intention of the parties hereto that the remainder of this Lease shall not be affected thereby, and it is also the intention of the parties to this Lease that in lieu of each clause or provision of this Lease that is illegal, invalid or unenforceable, there be added as a part of this Lease a clause or provision as similar in terms to such illegal, invalid or unenforceable clause or provision as may be possible and be legal, valid and enforceable.

Section 25.2 This Lease may not be altered, changed or amended, except by instrument in writing signed by both parties hereto. No provision of this Lease shall be deemed to have been waived by Landlord unless such waiver be in writing signed by Landlord and addressed to Tenant, nor shall any custom or practice which may evolve between the parties in the administration of the terms hereof be construed to waive or lessen the right of Landlord to insist upon the performance by Tenant in strict accordance with the terms hereof. The terms and conditions contained in this Lease shall apply to, inure to the benefit of, and be binding upon the parties hereto, and upon their respective successors in interest and legal representatives, except as otherwise herein expressly provided.

Section 25.3 Tenant shall peaceably and quietly hold and enjoy the Premises for the Lease Term, without hindrance from Landlord or Landlord's successors or assigns, subject to (i) the terms and conditions of this Lease, including the performance by Tenant of all of the terms and conditions of this Lease to be performed by Tenant, including the payment of rent and other amounts due hereunder, and (ii) actions and claims of any person or entity holding superior title to that of Landlord.

Section 25.4 Words of any gender used in this Lease shall be held and construed to include any other gender, and words in the singular number shall be held to include the plural, unless the context otherwise requires.

Section 25.5 If there be more than one Tenant, the obligations hereunder imposed upon Tenant shall be joint and several. If there be a guarantor of Tenant's obligations hereunder, the obligations hereunder imposed by Tenant shall be the joint and several obligations of Tenant and such guarantor and Landlord need not first proceed against Tenant before proceeding against such guarantor nor shall any such guarantor be released from its guaranty for any reason whatsoever, including, without limitation, in case of any amendments hereto, waivers hereof or failure to give such guarantor any notices hereunder.

Section 25.6 The captions contained in this Lease are for convenience of reference only, and in no way limit or enlarge the terms and conditions of this Lease.

Section 25.7 Any approval by Landlord or Landlord's architects and/or engineers of any of Tenant's drawings, plans and specifications that are prepared in connection with any construction of improvements on the Premises shall not in any way be construed or operate to bind Landlord or to constitute a representation or warranty of Landlord as to the adequacy or sufficiency of such drawings, plans and specifications, or the improvements to which they relate, for any use, purpose, or condition, but such approval shall merely be the consent of Landlord as may be required hereunder in connection with Tenant's construction of improvements in the Premises in accordance with such drawings, plans and specifications.

Section 25.8 Each and every covenant and agreement contained in this Lease is, and shall be construed to be, a separate and independent covenant and agreement.

Section 25.9 There shall be no merger of this Lease or of the leasehold estate hereby created with the fee estate in the Premises or any part thereof by reason of the fact that the same person may acquire or hold, directly or indirectly, this Lease or the leasehold estate hereby created or any interest in this Lease or in such leasehold estate as well as the fee estate in the Premises or any interest in such fee estate.

Section 25.10 Neither Landlord nor Landlord's agents or brokers, if any, have made any representations or promises with respect to the Premises, or any portion thereof, except as herein expressly set forth and no rights, easements or licenses are acquired by Tenant by implication or otherwise except as expressly set forth in the provisions of this Lease.

Section 25.11 The submission of this Lease to Tenant for examination does not constitute an offer, reservation or option in favor of Tenant, and Tenant shall have no rights with respect to this Lease or the Premises unless and until Landlord shall execute a copy of this Lease and deliver the same to Tenant.

Section 25.12 This Lease shall be subject to the Master Lease and to any and all easements, rights-of-way, covenants, liens, conditions, restrictions, outstanding mineral interest and royalty interests, if any, relating to the Premises, to the extent, and only to the extent, same still may be in force and effect and either shown of record in the Office of the County Clerk of Travis County, Texas or apparent on the Premises.

Section 25.13 This Lease has been executed in the State of Texas and shall be governed in all respects by the laws of the State of Texas. It is the intent of Landlord and Tenant to conform strictly to all applicable state and federal usury laws. All agreements between Landlord and Tenant, whether now existing or hereafter arising and whether written or oral, are hereby expressly limited so that in no contingency or event whatsoever shall the amount contracted for, charged or received by Landlord for the use, forbearance or detention of money hereunder exceed the maximum amount which Landlord is legally entitled to contract for, charge or collect under applicable state or federal law. If, from any circumstance whatsoever, fulfillment of any provision hereof at the time performance of such provision shall be due shall involve transcending the limit of validity prescribed by law, then the obligation to be fulfilled shall be automatically reduced to the limit of such validity, and if from any such circumstance, Landlord shall ever receive as interest or otherwise an amount in excess of the maximum that can be legally collected, then such amount which would be excessive interest shall be applied to the reduction of the Rent; and if such amount which would be excessive interest exceed the Rent, then such additional amount shall be refunded to Tenant.

Section 25.14 Nothing herein expressed or implied is intended, or shall be construed, to confer upon or give to any person or entity, other than the parties hereto, any right or remedy under or by reason of this Lease.

Section 25.15 This Lease is intended to be a "Net Lease" under which Landlord receives all of the Adjusted Rent net of all expenses relating to or incurred in connection with the Premises. All such expenses incurred during the Lease Term shall be borne by Tenant. The Administration Charge is set by Landlord in Landlord's discretion but may not exceed 6% of Base Rent payable for any calendar year.

Section 25.16 Tenant shall not bring onto the Premises or permit to remain on the Premises any asbestos, petroleum or petroleum products, explosives, toxic materials, or substances defined as hazardous wastes, hazardous materials, or hazardous substances under any federal, state, or local law or regulation ("**Hazardous Materials**"), except ordinary products commonly used in connection with the Permitted Use and stored in the usual manner and quantities. Tenant's violation of the foregoing prohibition shall constitute a material breach and default hereunder and Tenant shall indemnify, hold harmless and defend Landlord from and against any claims, damages, penalties, liabilities, and costs (including reasonable attorneys' fees and court costs) caused by or arising out of a violation of the foregoing prohibition. Tenant shall clean up, remove, remediate and repair, in conformance with the requirements of applicable law, any soil or ground water contamination and damage caused by Tenant's violation of this provision in, on, under, or about the Premises during the Lease Term. Tenant shall immediately give Landlord written notice of any suspected breach of this Section, upon learning of the presence or any release of any Hazardous Materials and upon receiving any notices from governmental agencies pertaining to Hazardous Materials which may affect the Premises. The obligations of Tenant hereunder shall survive the expiration or earlier termination, for any reason, of this Lease. Landlord shall have the right to enter upon the Premises from time to time to inspect same and to conduct thereon any environmental audit or assessment or perform any testing to confirm Tenant's compliance with the provisions of this Section, and in the event any such audit, assessment or test reflects that Tenant is in violation of this Section, in addition to Tenant's other obligations contained herein, Tenant shall reimburse Landlord for the cost of such audit, assessment or test. **Tenant is responsible for delivering to Master Landlord the annual disclosure required by Paragraph 13(c) of the Master Lease.**

Section 25.17 All exhibits and attachments, riders and addenda referred to in this Lease and the exhibits listed hereinbelow and attached hereto are incorporated into this Lease and made a part hereof for all intents and purposes as if fully set out herein. All capitalized terms used in such documents shall, unless otherwise defined therein, have the same meanings as are set forth herein.

Exhibit A - Renewal Option

DATED as of the date first above written.

LANDLORD:

YOUNG ZAPP GRACELAND, LTD., a Texas limited partnership

By: Young Zapp GP, LLC, a Texas limited liability company, General Partner

By: /s/ Michael R. Young
Michael R. Young, President

TENANT:

CHUY'S OPCO, INC., a Delaware corporation

By: /s/ Jon W. Howie
Jon W. Howie, Vice President and Chief Financial Officer

EXHIBIT A

Renewal Option

Tenant shall have and is hereby granted, the option to renew and extend the term of this Lease for 1 period of 5 years, provided Tenant is not in default hereunder at the time this option is exercised, when Landlord exercises the corresponding option under the Master Lease, or when the extension period commences. The extension term shall begin on the expiration of the initial term of this Lease. All terms, covenants, and provisions of this Lease will apply to each such extension term, with the Base Rent being the amount set forth in Section 1.1(i). If Tenant elects to exercise any such option, Tenant shall do so by written notice to Landlord not later than December 1, 2020.

Exhibit 21.1

Subsidiary	Jurisdiction of Incorporation
Chuy's Opco, Inc.	Delaware

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statement (No. 333-185948) on Form S-8 of Chuy’s Holdings, Inc. of our report datedMarch 10, 2017, relating to our audits of the consolidated financial statements, which appear in this Annual Report on Form 10-K of Chuy’s Holdings, Inc. for the year ended December 25, 2016.

/s/ RSM US LLP

Dallas, Texas

March 10, 2017

Exhibit 31.1

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 Annual report on Form 10-K 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 we 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: March 10, 2017

/s/ Steven J. Hislop

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

Exhibit 31.2

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 Annual report on Form 10-K 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 we 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: March 10, 2017

/s/ Jon W. Howie

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

Exhibit 32.1

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 Annual Report on Form 10-K of Chuy's Holdings, Inc., a Delaware Corporation (the "Company"), for the year endedDecember 25, 2016, 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: March 10, 2017

/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)