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

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**FORM 10-K**

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

For the fiscal year ended **December 25, 2022**  
OR

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

Commission File No. **001-35603**

**CHUY'S HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of incorporation  
or organization)

**20-5717694**  
(I.R.S. Employer  
Identification No.)

**1623 Toomey Rd.**  
**Austin, Texas 78704**

(Address of Principal Executive Offices) (Zip Code)

**Registrant's telephone number, including area code: (512) 473-2783**

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

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

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal controls over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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 26, 2022 (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 \$391 million.

The number of shares of the registrant's common stock outstanding at February 14, 2023 was 17,998,170.

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## Forward-Looking Statements

This annual report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. 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 impact of negative economic factors, including inflation and the availability of credit;
- the ultimate duration and severity of the COVID-19 pandemic and any new variants;
- the success of our existing and new restaurants;
- our ability to identify appropriate sites and develop and expand our operations;
- our ability to manage our growth effectively and the resulting changes to pre-opening costs;
- we operate most of our restaurants under long-term leases which we may not be able to renew and would be obligated to perform even if we closed our restaurants;
- changes in economic conditions and consumer buying patterns;
- damage to our reputation or lack of acceptance of our brand in existing or new markets;
- our expansion into markets that we are unfamiliar with;
- economic and other trends and developments, including adverse weather conditions, in the local or regional areas in which our restaurants are located and specifically in Texas where a large percentage of our restaurants are located;
- acts of violence at or threatened against our restaurants or centers in which they are located;
- changes in food availability and costs;
- food safety and food borne illness concerns;
- increased competition in the restaurant industry and the segments in which we compete;
- the success of our marketing programs;
- the impact of new restaurant openings, including the effect on our existing restaurants when opening new restaurants in the same markets and restaurant closures;
- 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 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;
- labor shortages and increases in our labor costs, including as a result of changes in government regulation;
- the loss of key members of our management team;
- the impact of legislation and regulation 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 laws and regulations, including with respect to liquor licenses and food services;
- the impact of litigation;
- the impact of impairment charges;

- the failure of our internal control over financial reporting;
- the impact of federal, state and local tax laws and the Internal Revenue Service disagreeing with our tax position;
- the effect of changes in accounting principles applicable to us;
- 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;
- volatility in the price of our common stock;
- the timing and amount of repurchases of our common stock;
- the impact of future sales of our common stock and any additional capital raised by us through the sale of our common stock or grants of additional equity-based compensation;
- the impact of a downgrade of our shares by securities analysts or industry analysts, the publication of negative research or reports, or lack of publication of reports about our business;
- the effect of anti-takeover provisions in our charter documents and under Delaware law;
- the effect of our decision to not pay dividends for the foreseeable future;
- our ability to raise capital in the future; and
- other risks and uncertainties described from time to time in the Company's Annual Report and other filings with the Securities and Exchange Commission.

Although we believe that the expectations reflected in the forward-looking statements are reasonable based on our current knowledge of our business and operations, we cannot guarantee future results, levels of activity, performance or achievements. The foregoing factors should not be construed as exhaustive and should be read together with other cautionary statements included in this Annual Report on Form 10-K, including under the heading "Risk Factors" in Item 1A of this Annual Report. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Any forward-looking statements you read in this Annual Report on Form 10-K reflect our views as of the date of this Annual Report on Form 10-K 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**

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principals. 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 2022, 2021 and 2020 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 "2022," "fiscal 2022," "fiscal year 2022" or similar references refer to the fiscal year ended December 25, 2022.

## 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 subsidiaries.

### ITEM 1. BUSINESS

#### General

Chuy's is a growing, full-service restaurant concept offering a distinct menu of authentic, freshly-prepared Mexican and Tex-Mex inspired food. We were founded in Austin, Texas in 1982. As of December 25, 2022, we operated 98 restaurants across 17 states, with an average annual unit volume of \$4.4 million for our 93 comparable restaurants. Our restaurants have 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 the cornerstone 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 for both lunch and dinner, which includes enchiladas, fajitas, tacos, burritos, combination platters and salads complemented by a variety of appetizers and desserts. Each of our restaurants also offers a variety of homemade sauces, including our signature Hatch Green Chile, Boom-Boom 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. During the COVID-19 pandemic the Company offered a limited menu featuring a number of long-time favorites and introduced convenient family meal and beverage kits. At the beginning of fiscal year 2022, we added several popular items back to our now full menu, including fan favorites like the Baja Shrimp Tacos and the Comida Deluxe combination platter. We also launched our first Chuy's Knock Out ("CKO") limited-time food offering during the fourth quarter of 2022. The CKO showcased three new menu items, including the Macho Burrito and Pork Boom-Boom Enchiladas, made with our savory roasted pork. CKO food offerings will continue to run for six weeks once every quarter. Our menu offers considerable value to our customers with an average check of \$18.14 as of December 25, 2022, which we believe 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 King's Punch, a made-to-order, hand-shaken rum cocktail served in our signature shaker. The bar represents an important aspect of our concept, where customers frequently gather prior to being seated. For the twelve months ended December 25, 2022, alcoholic beverages constituted approximately 15% 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, vintage hubcaps hanging from the ceiling, colorful hand-made floor and wall tile and festive metal palm trees. Excluding patio space, our restaurants range in size from 4,700 to 10,300 square feet, with seating for approximately 200 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 4,700 customers per location per week or 244,000 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.

The onset of the COVID-19 pandemic at the end of the first quarter of 2020 caused significant disruptions to the Company's business operations as a result of mandatory closures, imposed capacity limitations and other restrictions. As a result, the Company developed a new operating model to address increased off-premise business with proportionately lower indoor dining. This allowed the Company to rightsize its labor model and maximize its restaurant level operating profit at reduced sales volumes. The Company continues to be subject to risks and uncertainties as a result of the COVID-19 pandemic. The challenging labor market, commodity inflation pressures and supply chain shortages across many industries continue to increase costs to operate and stress our business. We cannot predict our ability to continue to operate without capacity limitations in the future which will depend in part on the actions of a number of governmental bodies over which we have no control, the efficacy and public acceptance of vaccination programs in curbing the spread of the virus, the introduction and spread of new variants of

the virus, which may prove resistant to currently approved vaccines, and new or reinstated restrictions on our operations. See Item 1A. "Risk Factors—COVID-19 has harmed our business and may continue to do so" for additional information.

### **Our Business Strengths**

Over our 40-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 Texas, Mexico and New Mexico. Every day in each restaurant, we roast and hand-pull chicken, make fresh tortillas, squeeze fresh lime juice and prepare fresh guacamole from whole avocados. In addition, we make all 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. Our culinary team travels to Hatch, New Mexico every year 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 personalized.

*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 an average check of \$18.14 as of December 25, 2022, which we believe is on the lower end of our casual dining peer group. Through our training programs, we teach 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 some 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 and weekday 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.

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 music, which we believe helps to provide an energetic customer experience. We also believe that each restaurant reflects the character of its individual community. Many of our restaurants have added unique, local elements such as a special "dog wall" featuring framed photos of our customer's furry friends. 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 encourage active social responsibility and involvement in local communities. We regularly sponsor a variety of community fundraisers and other local charitable events, including our largest annual toy drive campaign for Operation Blue Santa in our hometown of Austin, Texas. We also support St. Jude Children's Research Hospital on their annual pin-up campaign, raising money and awareness for childhood cancer treatments. 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 a significant number 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 believe our focus on cultural training is a core aspect of our Company and reinforces our commitment to the Chuy's brand identity.

*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, 2022, our comparable restaurants generated average unit volumes of \$4.4 million,

with our highest volume comparable restaurant generating approximately \$9.9 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 \$2.5 million.

*Experienced Management Team.* We are led by a management team with significant experience in all aspects of restaurant operations. As of December 25, 2022 our senior management team had an average of approximately 38 years of restaurant experience and our 103 general managers had an average tenure at Chuy's of approximately 8 years. In 2007, we hired our CEO and President, Steve Hislop. Since Mr. Hislop's arrival in 2007, we have opened, and continue to operate, 90 new restaurants across the U.S. as of December 25, 2022.

#### **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 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. We opened one new restaurant in 2020 and postponed four new store openings to 2021 as part of our response to the COVID-19 pandemic and opened three new restaurants in 2022. During 2023, we plan to open a total of six to seven restaurants in existing core markets.

*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 such as our CKOs. Additionally, we will continue to promote our brand and drive traffic through local marketing efforts, national digital marketing campaigns, social media influencers and charity partnerships, as well as our broad-ranging line of 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's training program and frequent "Culture Clubs," 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 our restaurant base grows, our general and administrative costs are expected to increase at a slower growth rate than our revenue.

#### **Real Estate**

As of December 25, 2022, we leased 105 locations, of which 90 are free-standing restaurants, 15 are end-cap or in-line restaurants in Class A locations, 6 of which are closed. We also own five properties with a free-standing restaurant in Indiana, Oklahoma, Arkansas and Texas. 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. Excluding patio space, our restaurants range in size from approximately 4,700 to 10,300 square feet, averaging approximately 7,500 square feet with seating capacity for approximately 200 to 400 customers. Nearly all of our restaurants feature outdoor patios averaging approximately 1,000 square feet. All of our leases provide for base (fixed) rent, plus some 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 terms of our leases are 10 or 15 years in length with two to three, five-year extension options. The initial terms of our leases currently expire between 2023 and 2043. 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 developed a targeted site acquisition and qualification process incorporating management’s experience as well as extensive data collection, analysis and interpretation. We recently implemented a full-service spatial analytics tool to conduct a comprehensive analysis of new market potential, customer profiling and site selection, which will enhance our site acquisition and qualification process in future years. 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. We currently pursue restaurants in existing major markets with proven high average unit volumes.

Our Real Estate and Development team 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 and current or expected co-retail and restaurant tenants. The key criteria for a potential site is 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 seek locations with high visibility, especially in a new market, and ample surface parking spaces. If our financial criteria are met, our Vice Presidents of Operations and Chief Executive Officer visit potential sites and then management negotiates leases.

### **Design**

After identifying a 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, 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 in 2023, we estimate the cost of a conversion or ground-up buildout will require an average net investment of approximately \$4.5 million. The flexibility of our concept 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 14 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**

Management believes we are well-positioned to continue our 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. Additionally, we seek to identify new markets in which we believe there is capacity for us to open multiple restaurants.

### **Restaurant Operations**

We currently have twenty supervisors that report directly to our four Vice Presidents of Operations who in turn report to our Chief Operating Officer. Each supervisor oversees an average of approximately three to six restaurants. The staffing at our restaurants typically consists of a general manager, firstassistant and kitchen manager and two to three assistant managers. In addition, each of our restaurants employs approximately 70 hourly employees.

### **Sourcing and Supply**

We rely on one national distributor, Performance Food Group (“PFG”), and various other suppliers to provide our beef, cheese, beans, soybean oil, beverages and our groceries. Our national distributor makes deliveries to each restaurant two to three times each week. Our distributor relationship with PFG has been in place for approximately nine years and covers all of our locations. For our chicken products, we rely on two suppliers for all of our locations. For our green chiles, each year we contract with a supplier from a group of farmers in Hatch, New Mexico. 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 several approved suppliers. 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 providers through approximately the end of fiscal 2027 based on the estimated consumption rates. 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 and beverage offerings, attentive service and fun dining experience. Our target demographic is persons ages 21 to 44 and persons with median income in excess of \$60,000 per year that dine out frequently. We aim to build our brand image and awareness at the company level while retaining local neighborhood relationships. We achieve this through digital initiatives and targeted traditional advertising that attract new customers combined with local store marketing initiatives aimed at increasing the frequency of visits by our current customers. We partner with a national media advertising agency and a full-service creative agency to plan our marketing strategy and our core creative direction. At the local level, we primarily foster relationships with schools, hotels, businesses, sports teams and neighborhood associations and sponsor local charity events. We also focus on generating significant brand awareness at new restaurant openings.

#### **Digital Marketing**

We have continued to increase our digital footprint through paid search and social media, paid video campaigns, online listings and the launch of our new website. Our increased social media presence, primarily on Facebook, Instagram and TikTok, has enabled us to reach a significant number of people in a timely fashion and at a low cost. We have a Facebook page and a social media champion for every restaurant, allowing us to connect to the community with local content and celebrate our people and our culture. In addition to reaching a larger audience with targeted messaging and radius geo-fencing, we are gathering more accurate demographic information and insight into our customers' behaviors. Our Online Ordering and Table Management platforms are fully integrated with our digital initiatives, generating additional customer data points. We are able to use these first-party data points to drive our digital media targeting.

#### **Local Store Marketing**

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.

A key aspect of our local restaurant marketing/branding strategy is developing community relationships. Our restaurant managers are closely involved in developing and implementing our local store marketing initiatives.

We regularly support a variety of community events, primarily focusing on helping children's charities. For over 33 years, we have fundraised for Operation Blue Santa in Austin, Texas. Operation Blue Santa provides gifts and holiday meals to families in need in Central Texas. Other local events we have sponsored include the Youth for Tomorrow Golf Classic in Northern Virginia, the Vanderbilt Children's Hospital River of Hope Radiothon in Nashville, Tennessee and the University of Kentucky Children's Hospital Survivor's Picnic in Lexington, Kentucky.

#### **Off-Premise**

We have increased our brand awareness outside of the four walls through our off-premise initiatives. Our Online Ordering platform allows customers to directly order Chuy's from their computers or smart devices for pick up or delivery. Our restaurant To Go staff take care of traditional phoned-in To Go orders and build relationships with local businesses to increase To Go orders to customers who are unable to come to our restaurants. We have added catering vans, equipment and a dedicated Catering Manager to most of our major markets. The Company partners with third party delivery services to create another channel for new and existing customers to be exposed to our brand, including DoorDash and Uber Eats.

## **New Restaurant Openings**

We have a marketing strategy that we use in connection with opening new restaurants to help build local brand recognition and create a “buzz”. We engage local public relations partners to assist us with earned media coverage, identifying events for Chuy’s to be a part of, establishing relationships with local charities and networking with community leaders. We strategically choose community events in the months leading up to our opening date to promote the new location and build local relationships. We employ a variety of pre-opening marketing initiatives such as paid social media promotions, delivering free food to businesses highlighting our defining differences, fundraising for our charity partner and hosting a dog event to collect pictures for our “dog wall.”

## **Management Information Systems**

All of our restaurants utilize computerized management information systems, which are designed to improve operating efficiencies, provide restaurant and corporate office with timely access to financial and operating data and reduce administrative time and expense. Our point-of-sale system (“POS”) services all of our restaurants and allows for easy integrations from other business applications. Our POS processes payments, collection of cash, credit and debit card transactions and other processes and procedures. We also use an enterprise back office software program 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 into our restaurant level operations. Restaurant hardware and software support for all of our restaurants is provided and coordinated with our headquarters in Austin, TX.

We accept credit cards as a method of payment at all of our restaurants. In addition, we offer secure web-based credit card payment options utilizing QR codes and Text to Pay. In an effort to provide the best security to our customers' credit card information, we utilize P2Pe solution, an encryption platform, to ensure that no credit card data is stored in our internal systems. We also use equipment that can process smart payment cards, commonly referred to as EMV (Europay, Mastercard and Visa) for credit card processing. In addition, we deployed industry-leading switching and firewall protection at all company owned internet connections. This allowed us to increase our visibility into the use of our private network, and enhanced our ability to detect malicious or improper digital activity. We also periodically assess our networks for vulnerability.

We believe that our current systems and practice of implementing regular updates position us well to support our business.

## **Government Regulation**

Our restaurants are subject to licensing and regulation by a number of government authorities, including the alcoholic beverage control, health, sanitation, zoning and public safety agencies in the states or municipalities in which our restaurants are located. Many jurisdictions where our restaurants are located required mandatory closures or imposed capacity limitations and other restrictions affecting our operations during the COVID-19 pandemic.

For the twelve months ended December 25, 2022, approximately 15% 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. We are also 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.

We are also subject to numerous federal, state and local laws affecting our business, including (1) laws relating to (a) immigration, employment, minimum wages, breaks, overtime, tip credits, worker conditions and health care, (b) nutritional labeling, nutritional content, menu labeling and food safety and (c) information security, privacy, cashless payments, gift cards and consumer credit, protection and fraud, (2) the Americans with Disabilities Act, which, among other things, requires our restaurants to meet federally mandated requirements for the disabled, and (3) 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 2022, there were no material capital expenditures for environmental control facilities, and no such expenditures are anticipated.

## **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 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 an agreement with our founders. We have also registered our chuy.com domain name. However, as a result of our settlement agreement with an unaffiliated entity, Baja Chuy's Mesquite Broiler, Inc. ("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.

### **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.

### **Human Capital Management**

As of December 25, 2022, we had approximately 7,400 employees, including 100 corporate management and staff personnel, 600 restaurant level managers and 6,700 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. We are committed to providing equal opportunities and seek to ensure there is equity in hiring, development and advancement. Our employees are a cornerstone of our culture and set the tone for a fun, family-friendly atmosphere with attentive service.

We devote significant resources to identifying, selecting and training restaurant-level employees, with a several month long training program for all of our restaurant managers that includes restaurant training and "cultural" training, in which managers observe our established restaurants' operations and customer interactions. We typically have in-store trainers at each existing location who provide both front- and back-of-the-house training on site. 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.

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 three weeks of opening and remain on site as needed and depending on unit volumes during the initial weeks. We have one front- and one back-of-the-house training coordinators, and these training coordinators remain on-site to manage the opening with 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. We are proud of our annual employee turnover rate at comparable restaurants, which as of December 25, 2022, was approximately 25% for store managers and 107% for hourly employees, which we believe is one of the lowest in the casual dining segment.

Fostering and maintaining a strong, healthy culture is a key strategic focus and drives our relationship with our customers, shareholders, business partners, communities and employees and enhances and differentiates our brand reputation. We devote substantial resources to provide extensive cultural training to our employees. In conjunction with our training activities, we hold "Culture Clubs" several times per year, as a means of fully imparting Chuy's history through personal stories of our founders. We strive to offer an atmosphere of inclusion and belonging for all. We believe the cultural alignment we cultivate around respect and inclusion builds trust and promotes teamwork to achieve our common goals.

## Company Information

The Company was incorporated in Delaware in 2006. 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](http://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 or furnished with the Securities and Exchange Commission ("SEC").

## ITEM 1A. RISK FACTORS

In evaluating our Company, you should carefully consider 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 results of operations could be harmed.

### Risks Relating to Our Business and Industry

*We have experienced and continue to experience inflationary conditions with respect to the cost for food, grocery items, labor and utilities, and we may not be able to increase prices or implement operational improvements sufficient to fully offset inflationary pressures on such costs, which may harm our business, financial condition and results of operations.*

Our results of operations are dependent upon, among other things, the price and availability of food, grocery items, labor and utilities. In fiscal 2021 and 2022, the costs of commodities, labor, energy and other inputs necessary to operate our restaurants significantly increased. Fluctuations in economic conditions, weather, demand and other factors also affect the availability, quality and cost of the ingredients and products that we buy. Further, many of the products that we use and their costs are interrelated. Changes in global demand for corn, wheat and dairy products could cause volatility in the feed costs for poultry and livestock. Our operating margins are also affected, whether as a result of general inflation or otherwise, by fluctuations in the price of utilities such as natural gas and electricity, on which our locations depend for their energy supply. Our inability to anticipate and respond effectively to one or more adverse changes in any of these factors could harm our business, financial condition and results of operations. We expect the inflationary pressures and other fluctuations impacting the cost of these items to continue to impact our business in 2023. Our attempts to offset cost pressures, such as through menu price increases and operational improvements, may not be successful. We may not seek to or be able to pass along price increases to our customers sufficient to completely offset cost increases. Consumers may be less willing to pay our menu prices and may increasingly visit lower-priced competitors, or may forgo some purchases altogether. To the extent that price increases are not sufficient to offset higher costs adequately or in a timely manner, and/or if they result in significant decreases in revenue, our business, financial condition and results of operations may be harmed.

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

The COVID-19 pandemic has caused and may continue to cause significant disruptions to our ability to generate revenue and cash flows, implement our restaurant development plan and open new restaurants and hire and retain employees and has caused and may continue to cause an increase in our commodity and labor costs. We have now reopened all of our restaurants without operating capacity restrictions and begun to open new restaurants; however, we cannot predict whether we will have to revert back to an off-premise only operating model at some or all of our restaurants or postpone restaurant development again. Additionally, different areas have seen varying levels of outbreaks or resurgences of COVID-19 and due to the concentration of our restaurants, these outbreaks or resurgences may harm our business, financial condition and results of operations more than our competitors. The COVID-19 pandemic has also adversely affected and may in the future continue to adversely affect the availability of liquidity generally in the credit markets, and there can be no guarantee that additional liquidity will be readily available or available on favorable terms to us, if necessary.

Our business, financial condition and results of operations may be harmed if a significant number of our employees are unable to work, whether because of illness, required quarantine, limitations on travel or other government restrictions in connection with COVID-19. Additionally, if our suppliers' employees are unable to work, whether because of illness, quarantine, limitations on travel or other government restrictions in connection with COVID-19, we could face shortages of food items or other supplies at our restaurants and our operations and sales could be adversely harmed by such supply interruptions.

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

***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, 2022, we operated 98 restaurants, of which 5 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 and you should not rely on our past results as an indication of our future results of operations.

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

- uncertain or declining economic conditions, including rising inflation and interest rates, 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, particularly in the Mexican and casual and fast-casual dining segments;
- changes in consumer preferences or budgeting constraints;
- customers' acceptance of our brand in new markets and experiences dining in our restaurants;
- 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, ambience and service; and
- the COVID-19 pandemic and other future health crises and the actions taken in response by governmental authorities and others to contain these health crises or treat their impact, including stay-at-home orders.

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, including to-go supplies, 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 or expenses due to litigation;
- energy, water and other utility costs and costs for insurance (including health, liability and workers' compensation); and
- information technology, delivery service charges and other logistical costs.

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 harm our business, 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 98 restaurants as of December 25, 2022. We plan to open a total of six to seven restaurants during fiscal year 2023. 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;
- 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;
- our 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;
- other unanticipated increases in costs, any of which could give rise to delays or cost overruns; and
- the COVID-19 pandemic and other future health crises and the actions taken in response by governmental authorities and others to contain these health crises or treat their impact, including stay-at-home orders.

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. As a result, we may be required to close restaurants that are not meeting our performance expectations. If we are unable to successfully expand in existing markets or penetrate new markets, our ability to increase our revenues and profitability may be harmed.

***If we fail to manage our growth effectively, it could harm our business.***

Failure to manage our growth effectively could harm our business. We have grown significantly since 2008 and intend to continue growing in the future. Our objective is to grow our business and increase stockholder value by (1) expanding our base of restaurants that are profitable and (2) increasing sales and profits at existing restaurants. While both these methods of achieving our objective are important to us, historically the most significant means of achieving our objective has been through opening new restaurants and operating these restaurants on a profitable basis. As we open and operate more restaurants, our rate of expansion relative to the size of our existing restaurant base will decline, which may make it increasingly difficult to achieve levels of sales and profitability growth that we have seen in the past. In addition, our existing restaurant management systems, financial and management controls and information systems may not be adequate to support our planned expansion. Our ability to manage our growth effectively will require us to continue to enhance these systems, procedures and controls and to locate, hire, train and retain management and operating personnel. We also have placed an emphasis on our culture, which we believe has been an important contributor to our success. As we grow, we may have difficulty maintaining our culture or adapting it sufficiently to meet the needs of our operations. We cannot assure you that we will be able to respond on a timely basis to all of the changing demands that our planned expansion will impose on management and on our existing infrastructure. If we are unable to manage our growth effectively, our business, financial condition and results of operations could be harmed.

***Any decision to either reduce or accelerate the pace of openings may positively or negatively affect our comparative financial performance.***

Our opening costs continue to be significant and the amount incurred in any single year or quarter is dependent on the number of restaurants expected to be opened during that time period. As such, our decision to either decrease or increase the rate of openings may have a significant impact on our financial performance for the period of time being measured. Therefore, if we decide to reduce our openings, our comparable opening costs will be lower and the short-term effect on our comparative financial performance will be favorable. Conversely, if the rate at which we develop and open new restaurants is increased to higher levels in the future, the resulting increase in opening costs will have an unfavorable short-term impact on our comparative financial performance.

***We occupy most of our restaurants under long-term non-cancelable leases for which we may remain obligated to perform under even after a restaurant closes, and we may be unable to renew leases at the end of their terms.***

Many of our current leases are non-cancelable and typically have initial terms ranging from 10 or 15 years in length with two to three five-year extension options. The initial terms of our leases currently expire between 2023 and 2043. We believe that leases that we enter into in the future will be on substantially similar terms. If we were to close or fail to open a restaurant at a location we lease, we would generally remain committed to perform our obligations under the applicable lease, which could include, among other things, payment of the base rent for the balance of the lease term. Our obligation to continue making rental payments and fulfilling other lease obligations in respect of leases for closed or unopened restaurants could have a material adverse effect on our business and results of operations. Alternatively, at the end of the lease term and any renewal period for a restaurant, we may be unable to renew the lease without substantial additional cost, if at all. If we cannot renew such a lease we may be forced to close or relocate a restaurant, which could subject us to construction and other costs and risks. If we are required to make payments or otherwise perform under one of our leases after a restaurant closes or if we are unable to renew our restaurant leases, our business, financial condition and results of operations could be harmed.

The success of our restaurants depends in large part on leased locations. As demographic and economic patterns change, current locations may or may not continue to be attractive or profitable. Possible declines in trade areas where our restaurants are located or adverse economic conditions in surrounding areas could result in reduced revenues in those locations. In addition, desirable locations for new restaurant openings or for the relocation of existing restaurants may not be available at an acceptable cost.

***Changes in economic conditions could harm our business, financial condition and results of operations.***

The restaurant industry depends on consumer discretionary spending. Economic conditions are uncertain and may decline or become more uncertain as a result of many factors, including the COVID-19 pandemic, rising interest rates and inflation. Uncertain or declining economic conditions, higher interest rates, higher fuel and other energy costs, inflation, higher levels of unemployment, higher debt levels and higher tax rates may repress consumer confidence and discretionary spending. If any of these events occur for a prolonged period of time, 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 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 restaurant closures could result from prolonged negative restaurant sales, which could harm our business, financial condition and results of operations.

***Changes in consumer buying patterns could harm our business, financial condition and results of operations.***

In the last several years and more recently during the COVID-19 pandemic, off premise sales, including delivery, have increased due to consumer demand for convenience and safety. While we plan to continue to invest in the growth of our off premise sales, there can be no guarantee that we will be able to increase and/or maintain our off premise sales. Off premise sales could also cannibalize dine in sales. Additionally, our systems and procedures may not be sufficient to handle off premise sales, which require additional investments in technology and people. Our failure to manage off premise sales effectively could harm our business, financial condition and results of operations.

Additionally, delivery from our restaurants is through third party delivery companies. These third party delivery companies require us to pay them commissions, which lower our profit margin on those sales; however, we believe that the majority of such sales are incremental. Any bad publicity, whether true or not, regarding third party delivery companies or their business model may negatively impact our sales. If these third party delivery companies cease doing business with us, or cannot make their scheduled deliveries, or do not continue their relationship with us on favorable terms, it could harm our business, financial condition and results of operations.

Advances in technologies or certain changes in consumer behavior driven by such technologies could also harm our business, financial condition and results of operations. Technology and consumer offerings continue to develop, and we expect new or enhanced technologies and consumer offerings will be available in the future and we may pursue certain of those technologies and consumer offerings. However, we cannot predict consumer acceptance of new or enhanced technology or their impact on our business. In addition, our competitors, some of whom have greater resources than us, may be able to benefit from changes in technologies or consumer acceptance of such changes, which could harm our competitive position. There can be no assurance we will be able to successfully respond to changing consumer preferences, including with respect to new technologies or to effectively adjust to these changes. If we are not able to successfully respond to these challenges, our business, financial condition and operating results could be harmed.



***Damage to our reputation or lack of acceptance of our brand in existing or new markets could harm 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 or COVID-19 outbreak could significantly reduce our brand's value and harm our business, financial condition and results of operations. For example, our brand value could suffer and our business could be harmed 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 restaurants.

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, our growth may be significantly delayed or impaired and we may have to close restaurants.

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 food service 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 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. 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 high 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 business, financial condition and results of operations. 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 summary, the dissemination of information online could harm our business, 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, 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 harmed 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 harming our business, financial condition and results of operations.

Further, the restaurant industry is subject to extensive state and local laws and regulations, which we may be unfamiliar with as we expand into new locations. We are subject to licensing and regulation by state and local authorities relating to health, sanitation, safety and fire standards and the sale of alcoholic beverages. We are also subject to laws and regulations relating to the preparation and sale of food, including regulations regarding product safety, nutritional content and menu labeling. Compliance with these laws and regulations can be costly, and any failure or perceived failure to comply with those laws could harm our business, financial condition and results of operation.

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

As of December 25, 2022, we operated a total of 40 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, local labor issues, the spread of COVID-19, changes in energy prices, adverse weather conditions, hurricanes, droughts, fires or other natural or man-made disasters could harm our



business, financial condition and results of operations.

***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 dependent on our restaurants located in Texas and the Southeastern and Midwestern United States. As a result, adverse economic conditions in any of these areas could harm our business, financial condition and results of operations. In addition, negative publicity regarding any of our restaurants in these areas could harm our business, financial condition and results of operations, as could other regional occurrences such as local labor issues, changes in energy prices, adverse weather conditions, hurricanes, droughts, fires 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. In addition, climate change may increase the frequency and severity of weather-related events and conditions, which affect our business.

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 results of operations 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 harm our business, financial condition and results of operations.

***Acts of violence at or threatened against our restaurants or the centers in which they are located, including active shooter situations and terrorism, could harm our business, financial condition and results of operations.***

Any act of violence at or threatened against our restaurants or the centers in which they are located, including active shooter situations and terrorist activities, may result in restricted access to our restaurants and/or restaurant closures in the short-term and, in the long-term, may cause our customers and staff to avoid our restaurants. Any such situation could adversely impact customer traffic and make it more difficult to fully staff our restaurants, which could harm our business, financial condition and results of operations.

***The impact of negative economic factors, including the availability of credit, on our landlords and surrounding tenants could harm our business, financial condition and results of operations.***

Negative effects on our existing and potential landlords due to the inaccessibility of credit, rising interest rates and other unfavorable economic factors may, in turn, harm our business, financial condition 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 harm our business, financial condition and results of operations.***

Our profitability and operating margins are dependent in part on our ability to anticipate and react to changes in food costs. We rely on our national distributor, PFG, and various other suppliers to provide our beef, cheese, beans, soybean oil, beverages and our groceries. For our chicken products, we rely on two suppliers for all of our locations. See "Item 1. Business—Sourcing and Supply" for information regarding our suppliers. 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 the delivery of products we need, 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 harm our business, financial condition and results of operations.

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 harm our business, financial condition and results of operations.

***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 harm our brand and reputation as well as our business, financial condition and results of operations. 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 could harm our business, financial condition and results of operations.

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. Any such results could harm our business, financial condition and results of operations.

The United States and other countries have experienced, or may experience in the future, outbreaks of viruses, such as COVID-19, Ebola, 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 harm our business, financial condition and results of operations.

***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. 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 and harm our business, financial condition and results of operations.

We may also need to evolve our concept or expand to new concepts in order to compete with popular new restaurant formats or concepts that are developed, which would require significant capital expenditures and management attention and would be subject to certain risks in addition to those of opening a new restaurant, including customer acceptance and competition with our other restaurants. We cannot offer any assurance that we will be successful in modifying or expanding our concept or that modifications or additions to our concept will not harm our business, financial condition and results of operations.

***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, our business, financial condition and results of operations could be harmed.

***The impact of restaurant openings and closures 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 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. Further, we may encounter increased 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. Additionally, our quarterly results have been and in the future may be impacted by restaurant closures, including by continued lease obligations, employee termination benefits, other closure related obligations and impairment charges. Accordingly, the volume and timing of restaurant openings and closures has had, and may continue to have, a meaningful impact on our results of operations. 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 results of operations to be below expectations of public market analysts and investors.

***Opening new restaurants in existing markets may harm 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 harm 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 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 2022, 2021 and 2020, we opened three, four and one restaurants, respectively. During 2023, we plan to open a total of six to seven restaurants. 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 business, financial condition and results of operations could be harmed. Likewise, if sales decline, we may be unable to reduce our infrastructure quickly enough to prevent sales deleveraging, which would harm our business, financial condition and results of operations.

***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 harm our business, financial condition 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 any new federal legislation regarding healthcare, could harm our business, financial condition and results of operations, 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.

***Security breaches of confidential customer information in connection with our electronic processing of credit and debit card transactions may harm our business, financial condition and results of operations.***

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 harm our business, financial condition and results of operations. Further, adverse publicity resulting from these allegations could harm our business, financial condition and results of operations.

***We may not be able to adequately protect our intellectual property, which, in turn, could harm the value of our brand and 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 harm 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 harm our business, financial condition and results of operations. 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 at certain of our locations, our landlord at those locations, 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 harm our business, financial condition and results of operations.***

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 or attacks, viruses, worms and other disruptions. Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations or if software or third-party vendors that support our information technology environment are compromised, our business, financial condition and results of operations could be harmed and subject us to litigation or actions by regulatory authorities. Further, adverse publicity resulting from such an event may harm our business, financial condition and results of operations. Although we have employed both internal resources and external consultants to audit our systems, and test them for vulnerability, and we have implemented firewalls, data encryption and other security controls and intend to maintain and upgrade our security technology and operational procedures to prevent damage, breaches or other disruptions, these 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 our disaster recovery plan fails, we may experience failures or delays in recovery of data, delayed reporting

and compliance, an inability to perform necessary corporate functions and other breakdowns in normal operating procedures that could harm our business, financial condition and results of operations and create exposure to administrative and other legal claims against us.

#### **Risks Relating to Human Capital**

##### ***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. Labor shortages, unfavorable fluctuations in market conditions, availability of insurance, changes in state and/or federal regulations or our employees attempting to unionize or establish boycotts or other types of work stoppages could significantly increase our labor costs. We are subject to federal, state, and local laws governing employment practices and working conditions. These laws cover wage and hour practices, labor relations, paid and family leave, and workplace safety, among others. The number of laws and regulations being passed at the state and local level creates unique challenges as different standards apply to different locations, sometimes with conflicting requirements. 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.

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, some states do not require employees to pool tips in order to share those tips with wait staff, bartenders and bussing staff. As a result, we may be required to pay our wait staff, bartenders and bussing staff in these states 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.

Further, changes to immigration laws 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 unbeknown 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 business, financial condition and results of operations could be harmed as a result of any of these factors.

##### ***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 and since the COVID-19 pandemic have 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 believe we 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 business, financial condition and results of operations could be harmed.

##### ***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, Jon Howie, our Chief Financial Officer and John Mountford, our Chief Operating Officer. We currently have employment agreements in place with Messrs. Hislop, Howie and Mountford. 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 also do not maintain any key man life insurance policies for any of our employees. If we are unable to retain these key members of management or are unable to successfully execute succession planning and attract additional qualified personnel, our business, financial condition and results of operations could be harmed.

## **Risks Relating to Legal, Regulatory, Tax and Accounting Issues**

***New legal or regulatory requirements, 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. We are 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. We are also required 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. 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 adapt our menu offerings to trends and eating habits, which could harm our business, financial condition and results of operations.

Further, many jurisdictions require that we have a food safety and quality 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. Our business, financial condition and results of operations may be harmed if we fail to comply with these laws or regulations or our food management system is unable to prevent an issue.

***Federal, state and local laws and 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 food or 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, customer traffic and our business, financial condition and results of operations could be harmed. 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.

We are also subject to numerous federal, state and local laws affecting our business, including (1) laws relating to (a) immigration, employment, minimum wages, breaks, overtime, tip credits, worker conditions and health care, (b) nutritional labeling, nutritional content, menu labeling and food safety and (c) information security, privacy, cashless payments, gift cards and consumer credit, protection and fraud, (2) the Americans with Disabilities Act, which, among other things, requires our restaurants to meet federally mandated requirements for the disabled, and (3) 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. Our inability to comply with these laws could harm our business, financial condition and results of operations.

***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 harm our business, financial condition and results of operations 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; however, there can be no assurances that our insurance will cover all such claims. 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 harmed 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 harmed by publicity resulting from such laws.

***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, operating lease assets 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 \$3.6 million, \$2.7 million and \$20.9 million in fiscal years 2022, 2021 and 2020, respectively.

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, which could harm our business, financial condition and results of operations.

***Failure of our internal control over financial reporting could harm our business, financial condition and results of operations.***

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.

***Federal, state and local tax laws may harm our business, financial condition and results of operations.***

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 harm our business, financial condition and results of operations. In addition, complying with new tax laws, rules or regulations could impact our business, financial condition and results of operations, 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 harm our business, financial condition and results of operations.



***Our reported financial results may be harmed by changes in accounting principles applicable to us.***

Our reported financial results may be harmed 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.

**Risks Relating to Our Indebtedness**

***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 harmed.***

At December 25, 2022, we had no outstanding indebtedness under our Revolving Credit Facility.

Our Revolving Credit Facility places certain conditions on us, including that it: (1) limits our flexibility in planning for, or reacting to, changes in our business or the industries in which we operate; (2) makes us more vulnerable to increases in interest rates, as borrowings under our Revolving Credit Facility are at variable rates; (3) limits our ability to obtain additional financing in the future for working capital or other purposes; and (4) could place us at a competitive disadvantage compared to our competitors.

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 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: (1) pay dividends on, redeem or repurchase our stock or make other distributions; (2) incur or guarantee additional indebtedness; (3) create or incur liens; (4) make acquisitions or investments; (5) transfer or sell certain assets or merge or consolidate with or into other companies; and (6) 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 harm our business, liquidity, capital resources and results of operations.

Our Revolving Credit Facility also requires us to comply with financial covenants including a minimum fixed charge coverage ratio and a maximum consolidated total lease adjusted leverage ratio. Changes with respect to our consolidated total lease adjusted leverage ratio 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 harm our business, 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 business, financial condition and results of operations would be harmed 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 the COVID-19 pandemic, rising interest rates, other uncertainties, changing or increased regulation, reduced alternatives, failures of significant financial institutions or other events 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, which could harm our business, liquidity, capital resources and results of operations. Such measures could include deferring capital expenditures (including the opening of new restaurants) and reducing or eliminating other discretionary uses of cash.

**Risks Relating to Ownership of Our Common Stock**

***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 may 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, applicable to us;
- 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;
- 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;
- our financial disclosures, 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 or actions taken by our stockholders;
- 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 public health crises, including the COVID-19 pandemic, and 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 by us, existing stockholders or holders of equity awards in the public market could lower our share price and any additional capital raised by us through the sale of our common stock or the granting of additional equity-based compensation may dilute your ownership in us.***

Sales of substantial amounts of our common stock in the public market by us, our existing stockholders or upon the exercise of outstanding stock options or vesting of equity awards held by our directors and employees may adversely affect the market price of our common stock. Additional capital raised by us through the sale of our common stock or the granting of additional equity-based compensation may dilute your ownership in us. 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. For additional information regarding our outstanding awards, see Note 9 of Notes to Consolidated Financial Statements included elsewhere this annual report.

***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 only at a duly called annual or special meeting;
- specify that special meetings of our stockholders cannot be called by stockholders;
- 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 a special dividend paid in 2011, 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.

***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.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

**ITEM 2. PROPERTIES**

As of December 25, 2022, we operated 98 restaurants located in the following states:

<b>LOCATION</b>	<b>NUMBER OF RESTAURANTS</b>
Alabama	2
Arkansas	3
Colorado	4
Florida	8
Georgia	2
Illinois	1
Indiana	4
Kentucky	5
Louisiana	1
Missouri	1
North Carolina	3
Ohio	6
Oklahoma	3
South Carolina	1
Tennessee	8
Texas	40
Virginia	6
<i><b>Total</b></i>	<b>98</b>

We generally lease all of the land, parking lots and buildings used in our restaurant operations under various long-term operating lease agreements. As of December 25, 2022, we owned five properties: one in Carmel, Indiana, one in Norman, Oklahoma, one in Oklahoma City, Oklahoma, one in Fayetteville, Arkansas and one in Harker Heights, Texas. For additional information regarding our obligations under our leases, see Note 8 to our Consolidated Financial Statements. See Item 1. "Business—Real Estate" for additional information regarding our properties.

All of our restaurant leases provide for base (fixed) rent, and some 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 two to three five-year extension options. The initial terms of our leases currently expire between 2023 and 2043. 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.

**ITEM 3. LEGAL PROCEEDINGS**

For information regarding legal proceedings, see Note 13 to our Consolidated Financial Statements.

**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 shares of common stock are traded on the Nasdaq Global Select Market under the symbol "CHUY".

**Holder**

As of February 14, 2023, there were approximately four 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, 2022 and December 26, 2021, we did not declare or pay any dividends on our common stock. We currently expect to retain future earnings, if any, for use in the operation, growth of our business and, to the extent that our board of directors believes appropriate in light of market conditions, the repurchase of shares of our common stock pursuant to the board-approved share repurchase plan. We currently 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. For additional information, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

**Purchases of Equity Securities by the Issuer**

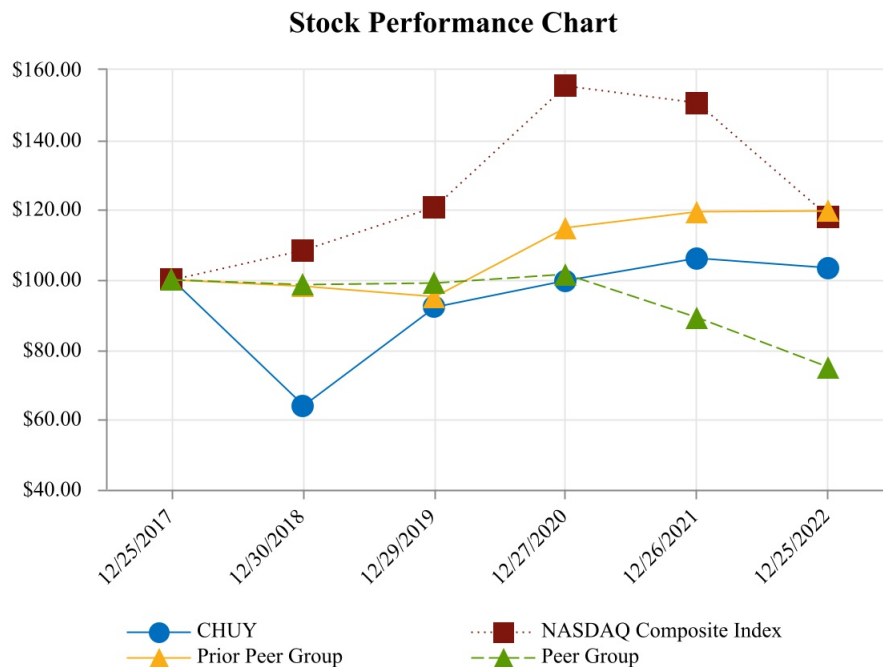
The table below provides information with respect to our purchase of shares of our common stock during the thirteen weeks ended December 25, 2022:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) <sup>(1)</sup>
September 26, 2022 through October 23, 2022	327,354	\$ 23.98	327,354	\$ —
October 24, 2022 through November 20, 2022	—	—	—	50.0
November 21, 2022 through December 25, 2022	—	—	—	50.0
Total	327,354	\$ 23.98	327,354	

<sup>(1)</sup> On November 4, 2021, we announced that our board of directors approved a share repurchase program under which we were authorized to repurchase up to \$50.0 million of our common stock. This repurchase program became effective on October 28, 2021 and had an expiration date of December 31, 2023. During the fourth quarter of 2022, we repurchased 327,354 shares for a total of \$7.8 million to complete the existing \$50.0 million repurchase program. On November 3, 2022, the Company announced that its board of directors approved a new share repurchase program under which the Company may repurchase up to \$50.0 million of its common shares outstanding. This repurchase program became effective on October 27, 2022 and expires on December 31, 2024.

**Stock Performance Chart**

The following graph compares the cumulative stockholder return on our common stock relative to the Nasdaq Composite, our peer group, which consists of: BJ's Restaurants, Inc., Bloomin' Brands, Inc., Brinker International, Inc., Cracker Barrel Old Country Store, Inc., Denny's Corporation, Red Robin Gourmet Burgers, Inc. and Ruth's Hospitality Group, Inc. and our prior peer group. Our peer group consists of companies which compete in the casual dining segment of the restaurant industry and have comparable market capitalizations. The comparison assumes a \$100 initial investment and 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.



	12/25/2017	12/30/2018	12/29/2019	12/27/2020	12/26/2021	12/25/2022
Chuy's Holdings, Inc.	100.00	64.03	92.09	99.57	106.06	103.32
Peer Group <sup>(1)</sup>	100.00	98.48	98.91	101.5	89.01	74.92
Prior Peer Group	100.00	97.94	95.00	114.88	119.38	119.63
NASDAQ Composite Index	100.00	95.38	130.47	185.48	226.75	152.07

<sup>(1)</sup> We believe a peer group that includes companies with comparable market capitalizations provides a better comparison to the Company's performance. As a result, we removed The Cheesecake Factory Incorporated and Texas Roadhouse, Inc. from our peer group and added Cracker Barrel Old Country Store, Inc., Denny's Corporation and Ruth's Hospitality Group, Inc. which have comparable market capitalizations and are in the casual dining segment of the restaurant industry.

**ITEM 6. RESERVED**

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

*The following discussion should be read in conjunction with 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 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, 2022, we operated 98 restaurants across 17 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' dining 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 existing major markets with proven high average unit volume;
- 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 three restaurants in fiscal 2022. During fiscal 2023, we plan to open six to seven restaurants. 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 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.

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.

#### **COVID-19 Pandemic**

The onset of the COVID-19 pandemic at the end of the first quarter of 2020 caused significant disruptions to the Company's business operations as a result of mandatory closures, imposed capacity limitations and other restrictions. As a result, the Company developed a new operating model to address increased off-premise business with proportionately lower indoor dining. This allowed the Company to rightsize its labor model and maximize its restaurant level operating profit at reduced sales volumes. The Company continues to be subject to risks and uncertainties as a result of the COVID-19 pandemic. The challenging labor market, commodity inflation pressures and supply chain shortages across many industries continue to increase costs to operate and stress our business. We cannot predict our ability to continue to operate without capacity limitations in the future which will depend in part on the actions of a number of governmental bodies over which we have no control, the efficacy and public acceptance of vaccination programs in curbing the spread of the virus, the introduction and spread of new variants of the virus, which may prove resistant to currently approved vaccines, and new or reinstated restrictions on our operations.

#### **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 93, 92 and 86 restaurants at December 25, 2022, December 26, 2021 and December 27, 2020, respectively.
- *Comparable Restaurant Sales as compared to 2019.* Changes in comparable restaurant sales reflect changes in sales for the comparable group of restaurants over a specified period of time as compared to that time in fiscal year 2019. The comparable group of restaurants include the restaurants that were in the comparable base as of the end of fiscal year 2019. Our comparable restaurant base consisted of 81 restaurants at December 25, 2022.
- *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 changes in menu and price increases as well as 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, 2022	December 26, 2021	December 27, 2020
Total restaurants (at end of period)	98	96	92
Total comparable restaurants (at end of period)	93	92	86
Average unit volumes (in thousands) <sup>(1)</sup>	\$ 4,382	\$ 4,197	\$ 3,477
Change in comparable restaurant sales <sup>(1)</sup>	4.5 %	22.1 %	(22.1)%
Average check	\$ 18.14	\$ 17.30	\$ 16.93

<sup>(1)</sup> We consider a restaurant to be comparable in the first full quarter following the 18th month of operations. Change in comparable restaurant sales reflect changes in sales for the comparable group of restaurants over a specified period of time.

#### Our Fiscal Year

We operate on a 52- or 53-week fiscal year that ends on the last Sunday of the calendar year. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter has 14 weeks. Our 2022, 2021 and 2020 years each consisted of 52 weeks.

#### Key Financial Definitions

*Revenue.* Revenue primarily consists of food and beverage sales and also includes merchandise 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 and payroll taxes.

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

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

*Depreciation.* Depreciation principally includes depreciation on fixed assets, including equipment and leasehold improvements.



*Interest (income) expense, net.* Interest (income) expense consists primarily of interest income earned on the excess cash invested in money market funds, reduced by interest on our outstanding indebtedness, uncommitted credit facility fees and the amortization of our debt issuance costs.

## Results of Operations

### Year Ended December 25, 2022 Compared to the Year Ended December 26, 2021

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

	Year Ended					
	December 25, 2022	% of Revenue	December 26, 2021	% of Revenue	Change	% Change
Revenue	\$ 422,215	100.0 %	\$ 396,467	100.0 %	\$ 25,748	6.5 %
Costs and expenses:						
Cost of sales	114,903	27.2	96,476	24.3	18,427	19.1
Labor	126,249	29.9	113,622	28.7	12,627	11.1
Operating	68,436	16.2	59,617	15.0	8,819	14.8
Occupancy	29,964	7.1	29,281	7.4	683	2.3
General and administrative	26,333	6.2	26,599	6.7	(266)	(1.0)
Marketing	6,004	1.4	4,360	1.1	1,644	37.7
Restaurant pre-opening	1,362	0.3	1,731	0.4	(369)	(21.3)
Impairment, closed restaurant and other costs	6,452	1.5	10,182	2.6	(3,730)	(36.6)
Depreciation	20,176	4.9	20,197	5.1	(21)	(0.1)
Total costs and expenses	399,879	94.7	362,065	91.3	37,814	10.4
Income from operations	22,336	5.3	34,402	8.7	(12,066)	(35.1)%
Interest (income) expense, net	(872)	(0.2)	144	0.1	(1,016)	*
Income before income taxes	23,208	5.5	34,258	8.6	(11,050)	(32.3)
Income tax expense	2,353	0.6	4,082	0.9	(1,729)	(42.4)
Net income	\$ 20,855	4.9 %	\$ 30,176	7.7 %	\$ (9,321)	(30.9)%

\* Not meaningful

*Revenue.* Revenue was \$422.2 million for the year ended December 25, 2022 compared to \$396.5 million for the year ended December 26, 2021. The increase was primarily related to 4.5% growth in the comparable restaurant sales as well as incremental revenue from an additional 110 operating weeks provided by new restaurants opened during and subsequent to December 26, 2021. For fiscal year 2022 and 2021, off-premise sales were approximately 27% and 28% of total revenue, respectively.

Comparable restaurant sales increased 4.5% for the year ended December 25, 2022 compared to the same period in 2021 primarily driven by a 4.8% increase in average check, partially offset by a 0.3% decrease in average weekly customers. Comparable restaurant sales increased 0.6% as compared to the same period in fiscal 2019.

*Cost of sales.* Cost of sales as a percentage of revenue increased to 27.2% during the year ended December 25, 2022 from 24.3% during the same period in 2021 primarily driven by a substantial increase in the cost of beef and chicken as well as fresh produce, cheese and grocery items. Overall commodity inflation was approximately 19% during the year, partially offset by menu price increases taken during the year.

*Labor costs.* Labor costs as a percentage of revenue increased to 29.9% during the year ended December 25, 2022 from 28.7% during the comparable period in 2021 largely as a result of hourly labor rate inflation of approximately 11% at comparable restaurants as well as an incremental improvement in our hourly staffing levels as compared to last year.

*Operating costs.* Operating costs as a percentage of revenue increased to 16.2% during the year ended December 25, 2022 from 15.0% during the comparable period in 2021 mainly as a result of higher restaurant repair and maintenance costs of approximately 20 basis points ("bps"), higher insurance premiums of approximately 20 bps, continued cost pressures on both utilities and to-go supplies for a total of approximately 40 bps, and an increase of approximately 10 bps in both delivery charges as well as credit card fees.

*Occupancy costs.* Occupancy costs as a percentage of revenue decreased to 7.1% during the year ended December 25, 2022 as compared to 7.4% for the same period in 2021 primarily as a result of sales leverage on fixed occupancy expenses.

*General and administrative expenses.* General and administrative expenses decreased \$0.3 million to \$26.3 million for the year ended December 25, 2022 as compared to \$26.6 million during the comparable period in 2021. The decrease was primarily driven by a \$1.8 million decrease in performance-based bonuses, partially offset by a \$1.1 million increase in management salaries, \$0.4 million increase in public company and other travel related expenses as travel resumed to close to pre-COVID-19 pandemic levels and a \$0.2 million increase in recruitment fees. As a percentage of revenues, general and administrative expenses decreased to 6.2% in 2022 from 6.7% in 2021.

*Marketing costs.* Marketing costs as a percentage of revenue increased to 1.4% during the year ended December 25, 2022 from 1.1% during the comparable period in 2021 as the company reinstated its digital advertising campaigns across the nation.

*Restaurant pre-opening costs.* Restaurant pre-opening costs decreased by \$0.3 million to \$1.4 million for the year ended December 25, 2022 as compared to \$1.7 million due to the timing of new store openings.

*Impairment, closed restaurant and other costs.* Impairment, closed restaurant and other costs decreased to \$6.5 million during the year ended December 25, 2022 from \$10.2 million during the comparable period in 2021. The decrease is largely driven by a \$2.0 million reduction in closed restaurants costs during fiscal 2022 as well as a \$2.7 million decrease in the loss on lease terminations, partially offset by \$1.0 million increase in the non-cash impairment charges recorded in relation to the termination of closed restaurant operating leases and one under-performing restaurant during the fourth quarter of 2022. The Company terminated and/ or subleased seven of its closed restaurant operating leases during 2022 as compared to six in the same period last year. Closed restaurant costs include rent expense, utilities, insurance and other costs required to maintain the remaining closed locations.

*Depreciation.* Depreciation remained consistent at \$20.2 million for the year ended December 25, 2022 as compared to the comparable period in 2021.

*Income tax expense.* Income tax expense was \$2.4 million in fiscal 2022 compared to an income tax expense of \$4.1 million in fiscal 2021. The effective income tax rate for fiscal 2022 was 10.1% compared to 11.9% in the same period last year. The decrease in the effective tax rate was mainly attributed to an increase in the proportion of employee tax credits to annual pre-tax income.

In August 2020, the IRS issued a Notice of Proposed Adjustment to the Company asserting that the tenant allowances paid under our operating leases should be recorded as taxable income for years 2016 and prior. The Company disagrees with this position based on the underlying facts and circumstances as well as standard industry practice. The Company estimates if the IRS's position was upheld, the Company's tax liability could range between \$0.5 million and \$2.5 million.

*Net income.* As a result of the foregoing, net income was \$20.9 million in fiscal 2022 compared to net income of \$30.2 million in fiscal 2021.

**Year Ended December 26, 2021 Compared to the Year Ended December 27, 2020**

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

	Year Ended					
	December 26, 2021	% of Revenue	December 27, 2020	% of Revenue	Change	% Change
Revenue	\$ 396,467	100.0 %	\$ 320,952	100.0 %	\$ 75,515	23.5 %
Costs and expenses:						
Cost of sales	96,476	24.3	79,033	24.6	17,443	22.1
Labor	113,622	28.7	98,184	30.6	15,438	15.7
Operating	59,617	15.0	50,352	15.7	9,265	18.4
Occupancy	29,281	7.4	29,406	9.2	(125)	(0.4)
General and administrative	26,599	6.7	22,195	6.9	4,404	19.8
Marketing	4,360	1.1	2,732	0.9	1,628	59.6
Restaurant pre-opening	1,731	0.4	1,769	0.6	(38)	(2.1)
Impairment, closed restaurant and other costs	10,182	2.6	26,794	8.3	(16,612)	(62.0)
Gain on insurance settlements	—	—	(1,000)	(0.3)	1,000	*
Depreciation	20,197	5.1	20,031	6.2	166	0.8
Total costs and expenses	362,065	91.3	329,496	102.7	32,569	9.9
Income (loss) from operations	34,402	8.7	(8,544)	(2.7)	42,946	*
Interest expense, net	144	0.1	257	—	(113)	(44.0)
Income (loss) before income taxes	34,258	8.6	(8,801)	(2.7)	43,059	*
Income tax expense (benefit)	4,082	0.9	(5,507)	(1.7)	9,589	*
Net (loss) income	\$ 30,176	7.7 %	\$ (3,294)	(1.0)%	\$ 33,470	*

\* Not meaningful

*Revenue.* Revenue was \$396.5 million for the year ended December 26, 2021 compared to \$321.0 million for the year ended December 27, 2020. The increase in revenue was primarily related to growth in customer traffic as the Company relaxed indoor dining capacity restrictions throughout its restaurants, as well as \$10.9 million of incremental revenue from new restaurants opened during fiscal year 2021. For fiscal year 2021, off-premise sales were approximately 28% of total revenue compared to approximately 35% in the same period last year.

Comparable restaurant sales increased 22.1% for the year ended December 26, 2021 compared to the same period in 2020 primarily driven by a 19.4% increase in average weekly customers and a 2.7% increase in average check. Comparable restaurant sales decreased 4.0% as compared to the same period in fiscal 2019 as a result of the COVID-19 pandemic.

*Cost of sales.* Cost of sales as a percentage of revenue decreased to 24.3% during the year ended December 26, 2021 from 24.6% during the same period in 2020. This decrease is primarily related to a decrease in fajita family kits sold subsequent to COVID-19 lockdowns as well as switching to a limited menu and eliminating the complimentary buffet style chips and salsa, or “Nacho Car,” during the second quarter of 2020 as a result of the COVID-19 pandemic. This decrease is partially offset by overall commodity inflation of 3.3%.

*Labor costs.* Labor costs as a percentage of revenue decreased to 28.7% during the year ended December 26, 2021, from 30.6% during the comparable period in 2020, primarily due to sales leverage on management labor costs as well as reduction in hourly employees and store management personnel as a result of the COVID-19 pandemic, partially offset by hourly labor rate inflation of approximately 4.6% and \$1.6 million of manager retention bonuses paid out during the second and third quarter of 2021.

*Operating costs.* Operating costs as a percentage of revenue decreased to 15.0% during the year ended December 26, 2021, from 15.7% during the comparable period in 2020 as a result of a decrease in to-go supplies due to lower off-premise sale mix as well as sales leverage on fixed restaurant operating costs, partially offset by an increase in liquor taxes driven by higher bar sales mix as compared the same period last year.

*Occupancy costs.* Occupancy costs as a percentage of revenue decreased to 7.4% during the year ended December 26, 2021 as compared to 9.2% for the same period in 2020, primarily as a result of sales leverage on fixed occupancy expenses as well as the closure of nine restaurants during the latter part of March 2020 and lower property taxes, partially offset by an increase in percentage rent as well as occupancy expenses related to four new stores opened during fiscal 2021.

*General and administrative expenses.* General and administrative expenses increased \$4.4 million to \$26.6 million for the year ended December 26, 2021 as compared to \$22.2 million during the comparable period in 2020. The increase was primarily driven by higher performance-based bonuses of approximately \$2.0 million, an increase in management salaries and stock based compensation of approximately \$1.3 million, in part due to a reinstatement of certain corporate employees after being furloughed at the start of the COVID-19 pandemic in fiscal 2020, as well as an increase in insurance premiums of approximately \$0.2 million, professional services fees and legal costs of approximately \$0.4 million, information technology costs of approximately \$0.1 million and other costs including travel as we are resuming our regular operations subsequent to COVID-19 lock-downs.

*Marketing costs.* Marketing costs as a percentage of revenue increased to 1.1% during the year ended December 26, 2021 from 0.9% during the comparable period in 2020 as the company reinstated its digital advertising campaigns across the nation.

*Restaurant pre-opening costs.* Restaurant pre-opening costs decreased by \$0.1 million to \$1.7 million for the year ended December 26, 2021 as compared to \$1.8 million. During fiscal 2021, we incurred pre-opening costs for several new restaurant openings. Restaurant pre-opening costs for the comparable period of 2020 represent expenses for the store openings postponed to fiscal 2021 as a result of the COVID-19 pandemic.

*Impairment and closed restaurant costs.* Impairment, closed restaurant and other costs decreased to \$10.2 million during the year ended December 26, 2021 from \$26.8 million during the comparable period in 2020. During fiscal 2021, the Company terminated six of its closed restaurant lease agreements and recorded a \$2.4 million loss on lease termination as well as a \$2.7 million non-cash impairment charge related to long-lived assets. During fiscal 2020, the Company recorded non-cash impairment charges of \$20.9 million related to restaurant closures as a result of the COVID-19 pandemic and \$0.8 million in COVID-19 related charges due to idle development costs as a result of delaying restaurant openings to 2021. The Company also incurred \$5.1 million of closed restaurant costs, which include rent expense, utility and insurance costs, during both fiscal 2021 and 2020.

*Depreciation.* Depreciation increased \$0.2 million to \$20.2 million for the year ended December 26, 2021, as compared to \$20.0 million during the comparable period in 2020, primarily due to an increase in depreciation associated with our new restaurants.

*Income tax expense (benefit).* Income tax expense was \$4.1 million in fiscal 2021 compared to an income tax benefit of \$5.5 million in fiscal 2020. The increase in income tax expense was driven by an increase in annual income before income taxes. As of December 26, 2021, the Company had a \$5.4 million deferred tax asset, which management believes will be fully realized, therefore, no valuation allowance is required at this time.

In August 2020, the IRS issued a Notice of Proposed Adjustment to the Company asserting that the tenant allowances paid under our operating leases should be recorded as taxable income for years 2016 and prior. The Company disagrees with this position based on the underlying facts and circumstances as well as standard industry practice. The Company estimates if the IRS's position was upheld, the Company's tax liability could range between \$0.5 million and \$2.5 million.

*Net income (loss).* As a result of the foregoing, net income was \$30.2 million in fiscal 2021 compared to net loss of \$3.3 million in fiscal 2020.

## **Liquidity**

Our principal sources of cash are net cash provided by operating activities, which includes tenant improvement allowances from our landlords, and borrowings, if any, under our \$35.0 million revolving credit facility as further discussed below. Consistent with many other restaurant and retail store operations, we typically use operating lease arrangements for our restaurants. From time to time, we may also purchase the underlying land for development. We believe that our operating lease arrangements provide appropriate leverage of our capital structure in a financially efficient manner. We may also from time to time sell equity or engage in other capital markets transactions.

Our main requirements for liquidity are to support our working capital, restaurant expansion plans, ongoing maintenance of our existing restaurants, investment in infrastructure, obligations under our operating leases, interest payments on our debt, if any, and to repurchase shares of our common stock subject to market conditions. Repurchases of the Company's outstanding common stock will be made in accordance with applicable laws and may be made at management's discretion from time to time in the open market, through privately negotiated transactions or otherwise, including pursuant to Rule 10b5-1 trading plans. There is no guarantee as to the exact number of shares to be repurchased by the Company. The timing and extent of repurchases will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, and repurchases may be discontinued at any time.

During the fiscal years ended 2022, 2021, and 2020 the Company repurchased 1,661,742, 461,501 and 90,144 (prior to the beginning of the COVID-19 pandemic) shares of common stock for a total cost of \$41.7 million, \$14.5 million and \$1.4 million, respectively. As of December 25, 2022, the Company completed its existing \$50.0 million repurchase program.

On October 27, 2022, the Company's Board of Directors approved a new share repurchase program under which the Company may repurchase up to \$50.0 million of its common shares outstanding through December 31, 2024.

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."

As of December 25, 2022, the Company had a strong financial position with \$78.0 million in cash and cash equivalents, no debt and \$35.0 million of availability under its revolving credit facility.

#### **Cash Flows for the Years Ended December 25, 2022, December 26, 2021 and December 27, 2020**

The following table summarizes the statements of cash flows (in thousands):

	Year Ended		
	December 25, 2022	December 26, 2021	December 27, 2020
Net cash provided by operating activities	\$ 42,806	\$ 49,780	\$ 42,714
Net cash used in investing activities	(28,300)	(16,413)	(12,149)
Net cash (used in) provided by financing activities	(43,099)	(13,563)	46,178
Net (decrease) increase in cash and cash equivalents	(28,593)	19,804	76,743
Cash and cash equivalents at beginning of year	106,621	86,817	10,074
Cash and cash equivalents at end of period	\$ 78,028	\$ 106,621	\$ 86,817

*Operating Activities.* Net cash provided by operating activities decreased \$7.0 million to \$42.8 million for the year ended December 25, 2022 compared to \$49.8 million during the comparable period in 2021. Our business is almost exclusively a cash business. Almost all of our receipts come in the form of cash and cash equivalents and a large majority of our expenditures are paid within a 30 day period. The decrease in net cash provided by operating activities was mainly attributable to:

- 1) a \$9.3 million decrease as a result of lower net income;
- 2) a \$2.0 million decrease in the accrued and other liabilities largely driven by lower accrued performance-based bonus in fiscal 2022 as compared to last year; and
- 3) a \$2.0 million decrease in non-cash adjustment related to an unfavorable change in deferred income taxes as compared to last year.

This overall decrease of \$13.3 million, as detailed above, is partially offset by a \$6.7 million lower payments on operating lease liabilities mainly driven by a reduction in rent on closed restaurants and lease termination payments as compared to last year.

Net cash provided by operating activities increased \$7.1 million to \$49.8 million for the year ended December 26, 2021 compared to \$42.7 million during the same period in 2020. The increase in net cash provided by operating activities was mainly attributable to a 22.1% increase in comparable restaurant sales, a substantial improvement in the restaurant-level operating margin as well as a \$7.6 million increase in deferred income taxes due in part to a CARES Act administrative correction which took place in fiscal year 2020. This overall increase was partially offset by \$7.8 million in lease termination costs paid during fiscal 2021 to terminate six of our closed restaurant leases as well as a \$2.3 million repayment of deferred rent liability (included in operating lease liabilities) recorded as a result of rent deferment and concessions during the COVID-19 pandemic.

*Investing Activities.* Net cash used in investing activities increased \$11.9 million to \$28.3 million for the year ended December 25, 2022, from \$16.4 million during the comparable period in 2021. The increase was mainly driven by the timing of our new restaurant construction as compared to the same period last year.

Net cash used in investing activities increased \$4.3 million to \$16.4 million for the year ended December 26, 2021, from \$12.1 million for the year ended 2020. The increase was mainly driven by our new restaurant construction as compared to the same period last year.

*Financing Activities.* Net cash used in financing activities increased \$29.5 million to \$43.1 million for the year ended December 25, 2022 from net cash used in financing activities of \$13.6 million during the comparable period in 2021 primarily due to a \$27.1 million increase in the repurchase of shares of our common stock as well as a \$3.7 million decrease in proceeds from the exercise of stock options.

Net cash used in financing activities decreased \$59.8 million to \$13.6 million for the year ended December 26, 2021 from net cash provided by financing activities of \$46.2 million for the same period in 2020. The decrease was primarily due to \$48.2 million in net proceeds received in the Company's ATM offering completed during the second quarter of fiscal 2020 and a \$13.1 million increase in the repurchases of common shares during fiscal year 2021 as compared to fiscal 2020, partially offset by a \$3.5 million increase in proceeds from the exercise of options during fiscal year 2021.

For the years ended December 25, 2022, December 26, 2021 and December 27, 2020, we had no other financing transactions, arrangements or other relationships with any unconsolidated affiliates or related parties. Additionally, we had no financing arrangements involving synthetic leases or trading activities involving commodity contracts.

## **Capital Resources**

### ***Long-Term 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 typically required for a new restaurant depend on whether the restaurant is a ground-up construction or a conversion. For our new unit openings in 2023, we estimate the cost of a conversion or ground-up buildout will require an average net investment of approximately \$4.5 million. In addition, we expect to spend approximately \$0.5 million to \$0.6 million per restaurant for restaurant pre-opening costs.

For 2023, we currently estimate capital expenditure outlays will range between \$35.0 million and \$39.0 million and approximately \$2.5 million to \$3.0 million of restaurant pre-opening costs for new restaurants. These capital expenditure estimates are based on the opening of six to seven new restaurants and approximately \$7.0 million to maintain and remodel our existing restaurants and for other general corporate purposes.

Based on our growth plans, we believe our existing cash balance combined with future expected cash flows from operations and available borrowings under our Revolving Credit Facility will be sufficient to finance our planned capital expenditures and other operating activities in fiscal 2023 and beyond.

### ***Short-Term Capital Requirements***

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

We had a net working capital of \$43.5 million at December 25, 2022 compared to a net working capital of \$72.1 million at December 26, 2021.

### ***Revolving Credit Facility***

On July 30, 2021, the Company entered into a secured \$35.0 million revolving credit facility with JPMorgan Chase Bank, N.A. (the "Credit Facility"). The Credit Facility may be increased up to an additional \$25.0 million subject to certain conditions and at the Company's option if the lenders agree to increase their commitments. The Credit Facility will mature on July 30, 2024, unless the Company exercises its option to voluntarily and permanently reduce all of the commitments before the maturity date. In connection with entering the Credit Facility, the Company terminated its \$25.0 million revolving credit facility with Wells Fargo Bank, N.A.

The Credit Facility contains representations and warranties, affirmative and negative covenants and events of default that the Company considers customary for an agreement of this type. The agreement requires the Company to be in compliance with a minimum fixed charge coverage ratio of no less than 1.25 to 1.00, and a maximum consolidated total lease adjusted leverage ratio of no more than 4.00 to 1.00. The Credit Facility also has certain restrictions on the payment of dividends and distributions. Under the 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 consolidated total lease adjusted leverage ratio does not exceed 3.50 to 1.00.

Borrowings under the Credit Facility accrue interest at a per annum rate equal to, at the Company's election, either LIBOR plus a margin of 1.5% to 2.0%, depending on the Company's consolidated total lease adjusted leverage ratio, or a base rate determined according to the highest of (a) the prime rate, (b) the federal funds rate plus 0.5% or (c) LIBOR plus 1.0%, plus a margin of 0.5% to 1.0%, depending on the Company's consolidated total lease adjusted leverage ratio.

An unused commitment fee at a rate of 0.125% applies to unutilized borrowing capacity under the Credit Facility.

The obligations under the Company's Credit Facility are guaranteed by certain subsidiaries of the Company and, subject to certain exceptions, secured by a continuing security interest in substantially all of the Company's assets. As of December 25, 2022, the Company had no borrowings under the Credit Facility, and was in compliance with all covenants under the Credit Facility.

**Contractual Obligations**

The following table summarizes contractual obligations at December 25, 2022 (in thousands):

	Payment Due By Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
<b>Contractual Obligations:</b>					
Operating Lease Obligations <sup>(1)</sup>	\$ 308,505	\$ 26,720	\$ 52,787	\$ 48,552	\$ 180,446
Purchase Obligations <sup>(2)</sup>	49,582	49,582	—	—	—
<b>Total</b>	<b>\$ 358,087</b>	<b>\$ 76,302</b>	<b>\$ 52,787</b>	<b>\$ 48,552</b>	<b>\$ 180,446</b>

<sup>(1)</sup> Reflects the aggregate minimum lease payments for our restaurant operations and corporate office, including approximately \$3.0 million of legally binding minimum lease payments for leases signed but which we have not yet taken possession. Operating lease obligations excludes contingent rent payments that may be due under certain of our leases based on a percentage of sales.

<sup>(2)</sup> 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, 2022, we are not involved in any variable interest entities transactions and do not otherwise have any off-balance sheet arrangements.

**Critical Accounting Policies and Estimates**

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.* The Company leases land and or buildings for its corporate offices and the majority of its restaurants under various long-term operating lease agreements. The Company determines if a contract contains a lease at inception. The lease term begins on the date that the Company takes possession under the lease, including the pre-opening period during construction, when in many cases the Company is not making rent payments. The initial lease terms range from 10 or 15 years, most of which include renewal options of 10 to 15 years. The lease term is generally the minimum of the noncancelable period or the lease term including renewal options which are reasonably certain of being exercised up to a term of approximately 20 years. 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.

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

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



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

We make judgments regarding the probable term for each restaurant property lease, which can impact the classification and accounting for a lease as finance 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 and rent expense than would be reported if different assumed lease terms were used.

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

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

The Company's impairment assessment process requires the use of estimates and assumptions regarding future cash flows and operating outcomes, which are based upon a significant degree of management judgment. The estimates used in the impairment analysis represent a Level 3 fair value measurement. The Company continues to assess the performance of restaurants and monitors the need for future impairment. Changes in the economic environment, real estate markets, capital spending, overall operating performance and underlying assumptions could impact these estimates and result in future impairment charges.

As a result of the above mentioned process, the Company recorded a non-cash loss on asset impairment of \$3.6 million during the fiscal year ended December 25, 2022, \$2.7 million during the fiscal year ended December 26, 2021 and \$20.9 million during the fiscal year ended December 27, 2020.

*Goodwill and other intangible assets.* Goodwill and indefinite life intangible assets are not amortized but are tested annually at the end of the fiscal year, 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, our assessment is performed at the reporting unit level. The Company considers all of its stores in total as one reporting unit. The goodwill impairment test compares the fair value of the reporting unit to the carrying amount, including goodwill. If the fair value of the reporting unit is less than the carrying amount, an impairment charge is recorded for the difference, limited to the total amount of goodwill allocated to that reporting unit.

Similarly, for the impairment evaluation for indefinite life intangible assets, which includes our trade names, we determine whether the estimated fair value of the indefinite-lived intangible asset is less than its carrying value. We calculate the 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. Our analysis indicated that no impairments of goodwill or indefinite-lived intangibles occurred during fiscal 2022, 2021 or 2020.



*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.

#### **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.

### **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 \$3,500 per every million dollars borrowed. As of December 25, 2022, 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 as of the end of the period covered by this report 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, 2022 based on the criteria in *Internal Control — Integrated Framework* (2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, our management concluded that our internal control over financial reporting was effective as of December 25, 2022.

RSM US LLP, the Company's independent registered public accounting firm, has audited the financial statements included in this Annual Report on Form 10-K, and has issued an attestation report on our internal control over financial reporting, which is included herein.

### **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.

## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Internal Control Over Financial Reporting

We have audited Chuy's Holdings, Inc.'s (the Company) internal control over financial reporting as of December 25, 2022, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 25, 2022, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company and our report dated February 21, 2023 expressed an unqualified opinion.

### Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

### Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) 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.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. 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.

/s/ RSM US LLP  
Austin, Texas  
February 21, 2023

**ITEM 9B. OTHER INFORMATION**

None

**PART III**

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

**PART IV**

**ITEM 15: EXHIBIT 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.

**Exhibit Index**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
<a href="#">3.1</a>	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)
<a href="#">3.2</a>	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)
<a href="#">4.1</a>	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)
<a href="#">4.2</a>	Description of Registrant's Common Stock (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K, filed on March 10, 2020)
<a href="#">10.1*</a>	Chuy's Holdings, Inc. 2020 Omnibus Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on July 31, 2020)
<a href="#">10.2*</a>	Form of Restricted Stock Unit Agreement (2020 Omnibus Incentive Plan) (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed on November 6, 2020)
<a href="#">10.3*</a>	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)
<a href="#">10.4*</a>	Form of Restricted Stock Unit 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)
<a href="#">10.5*</a>	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)
<a href="#">10.6*</a>	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)
<a href="#">10.7*</a>	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)
<a href="#">10.8*</a>	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)
<a href="#">10.9*</a>	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)
<a href="#">10.10*</a>	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)
<a href="#">10.11*</a>	Employment Agreement, dated March 11, 2019, between Chuy's Holdings, Inc., Chuy's Opco, Inc. and Steve Hislop (incorporated by reference to Exhibit 10.27 to the Company's Annual Report on Form 10-K, filed on March 12, 2019)
<a href="#">10.12*</a>	Employment Agreement, dated March 11, 2019, between Chuy's Holdings, Inc., Chuy's Opco, Inc. and Jon Howie (incorporated by reference to Exhibit 10.28 to the Company's Annual Report on Form 10-K, filed on March 12, 2019)
<a href="#">10.13*</a>	Employment Agreement, dated March 11, 2019, between Chuy's Holdings, Inc., Chuy's Opco, Inc. and John Mountford (incorporated by reference to Exhibit 10.29 to the Company's Annual Report on Form 10-K, filed on March 12, 2019)
<a href="#">10.14*</a>	Employment Agreement, dated March 11, 2019, between Chuy's Holdings, Inc., Chuy's Opco, Inc. and Michael Hatcher (incorporated by reference to Exhibit 10.30 to the Company's Annual Report on Form 10-K, filed on March 12, 2019)
<a href="#">10.15*</a>	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)
<a href="#">10.16</a>	Credit Agreement, dated as of July 30, 2021, by and among Chuy's Holdings, Inc., as borrower, certain subsidiaries of Chuy's Holdings, Inc., as guarantors, the lenders party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent, swingline lender and issuing lender (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on August 2, 2021)
<a href="#">21.1+</a>	Subsidiaries of Chuy's Holdings, Inc.
<a href="#">23.1+</a>	Consent of RSM US LLP
<a href="#">31.1+</a>	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">31.2+</a>	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">32.1++</a>	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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101.INS+	Inline XBRL Instance Document (The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document)
101.SCH+	Inline XBRL Taxonomy Extension Schema
101.CAL+	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF+	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB+	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE+	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Indicates management contract or compensatory plan or arrangement.

+ Filed herewith

++ Furnished herein



**INDEX TO CONSOLIDATED FINANCIAL STATEMENTS**

<a href="#">Report of Independent Registered Public Accounting Firm</a> (PCAOB ID: 49)	<a href="#">F - 2</a>
<a href="#">Consolidated Financial Statements:</a>	
<a href="#">Consolidated Balance Sheets</a>	<a href="#">F - 4</a>
<a href="#">Consolidated Statements of Income</a>	<a href="#">F - 5</a>
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<a href="#">Notes to Consolidated Financial Statements</a>	<a href="#">F - 8</a>



## Report of Independent Registered Public Accounting Firm

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

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Chuy's Holdings, Inc. (the Company) as of December 25, 2022 and December 26, 2021, the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 25, 2022, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 25, 2022 and December 26, 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 25, 2022, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 25, 2022, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated February 21, 2023 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which they relate.

#### *Impairment of long-lived assets*

As described in Notes 2 and 10 to the consolidated financial statements, the Company assesses long-lived assets, such as property and equipment and operating lease assets, for impairment when events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. If the carrying amount of the restaurant asset group exceeds estimated future undiscounted cash flows, an impairment charge may be recognized to the extent by which the restaurant asset group's carrying amount exceeds its fair value. As of December 25, 2022, long-lived assets consisted of property and equipment, net of \$186 million and operating lease assets, net of \$147 million. During the year ended December 25, 2022, the Company recorded an impairment of long-lived assets of \$3.6 million.

The Company makes assumptions to estimate future cash flows and the fair value of assets. We identified the assumptions used by management as a critical audit matter. Estimated future cash flows are based on the Company's forecasts and understanding of their business, historical operating results and trends in revenue from restaurant operations and restaurant level operating costs. The Company generally uses the depreciated replacement cost method, the income approach, or discounted cash flow projections to estimate fair value. The estimates of undiscounted cash flows and fair value of the restaurant asset group required greater auditor judgment and the use of valuation specialists to assist the auditor in evaluating the assumptions used by management. Specifically, the undiscounted operating cash flow scenarios applied by the Company based on expected future performance, the revenue growth rate, operating margin assumptions, and the assumptions used to determine the fair value of the restaurant asset group were especially challenging to evaluate as minor changes to those assumptions had a potential

significant effect on the Company's assessment of the fair value of the restaurant asset groups and the amount of the related loss on asset impairment.

Our audit procedures related to the Company's assumptions used to estimate future cash flows and fair value of the restaurant asset group, included the following, among others:

- We obtained an understanding of the relevant controls related to the Company's long-lived asset impairment assessment process and tested such controls for design and operating effectiveness, including controls related to the revenue growth rate, operating margin assumptions used by management to determine undiscounted cash flows, and the fair value of the restaurant asset group.
- We performed sensitivity analyses over the probability weighting scenarios applied by the Company based on expected future performance noting that the two key assumptions were the revenue growth rate and the operating margin.
- We evaluated the Company's forecasted revenue growth rate and operating margin assumptions for the restaurant asset groups by comparing the assumptions to the Company's historical performance across all restaurant locations to assess the Company's ability to accurately forecast.
- We evaluated the Company's assumptions used to determine future cash flows for operating locations by comparing to the Company's historical performance for the restaurant asset groups and to the Company's historical performance across all restaurant locations to assess the Company's ability to accurately forecast, as well as comparing the potential lease-up period and sublease income for the sublease scenario to external market participant data. We also assessed the discount rate used in the discounted cash flow projections by comparing to internal and external data and evaluated the impact of changes on the fair value of the restaurant asset group.

/s/ RSM US LLP

We have served as the Company's auditor since 2006.

Austin, Texas

February 21, 2023

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

	December 25, 2022	December 26, 2021
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 78,028	\$ 106,621
Accounts receivable	2,004	1,811
Lease incentives receivable	900	—
Inventories	2,069	1,676
Income tax receivable	—	1,083
Prepaid expenses and other current assets	4,817	3,273
Total current assets	87,818	114,464
Property and equipment, net	185,956	179,369
Operating lease assets	146,920	148,444
Deferred tax asset, net	4,958	5,400
Other assets and intangible assets, net	3,160	1,678
Trade name	21,900	21,900
Goodwill	24,069	24,069
Total assets	\$ 474,781	\$ 495,324
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 8,059	\$ 4,127
Accrued liabilities	23,321	25,242
Operating lease liabilities	12,499	13,003
Income tax payable	479	—
Total current liabilities	44,358	42,372
Operating lease liabilities, less current portion	183,670	188,735
Other liabilities	2,192	1,423
Total liabilities	230,220	232,530
Contingencies		
	—	—
Stockholders' equity:		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 17,998,170 shares issued and outstanding at December 25, 2022 and 19,538,058 shares issued and outstanding at December 26, 2021	180	195
Preferred stock, \$0.01 par value; 15,000,000 shares authorized and no shares issued or outstanding at December 25, 2022 and December 26, 2021	—	—
Paid-in capital	96,586	135,659
Retained earnings	147,795	126,940
Total stockholders' equity	244,561	262,794
Total liabilities and stockholders' equity	\$ 474,781	\$ 495,324

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, 2022	December 26, 2021	December 27, 2020
Revenue	\$ 422,215	\$ 396,467	\$ 320,952
Costs and expenses:			
Cost of sales	114,903	96,476	79,033
Labor	126,249	113,622	98,184
Operating	68,436	59,617	50,352
Occupancy	29,964	29,281	29,406
General and administrative	26,333	26,599	22,195
Marketing	6,004	4,360	2,732
Restaurant pre-opening	1,362	1,731	1,769
Impairment, closed restaurant and other costs	6,452	10,182	26,794
Gain on insurance settlements	—	—	(1,000)
Depreciation	20,176	20,197	20,031
Total costs and expenses	<u>399,879</u>	<u>362,065</u>	<u>329,496</u>
Income (loss) from operations	22,336	34,402	(8,544)
Interest (income) expense, net	(872)	144	257
Income (loss) before income taxes	23,208	34,258	(8,801)
Income tax expense (benefit)	2,353	4,082	(5,507)
Net income (loss)	<u>\$ 20,855</u>	<u>\$ 30,176</u>	<u>\$ (3,294)</u>
Net income (loss) per common share:			
Basic	<u>\$ 1.12</u>	<u>\$ 1.52</u>	<u>\$ (0.18)</u>
Diluted	<u>\$ 1.11</u>	<u>\$ 1.50</u>	<u>\$ (0.18)</u>
Weighted-average shares outstanding:			
Basic	<u>18,682,255</u>	<u>19,835,550</u>	<u>18,396,335</u>
Diluted	<u>18,793,455</u>	<u>20,079,237</u>	<u>18,396,335</u>

See Notes to Consolidated Financial Statements

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

	Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, December 29, 2019	16,636,464	\$ 166	\$ 94,712	\$ 100,058	\$ 194,936
Stock-based compensation	—	—	3,922	—	3,922
Proceeds from exercise of stock options	20,918	—	234	—	234
Sale of common stock from ATM offering, net of fees and expenses	3,041,256	31	48,136	—	48,167
Repurchase of shares of common stock	(90,144)	(1)	(1,421)	—	(1,422)
Settlement of restricted stock units	146,325	1	(1)	—	—
Indirect repurchase of shares for minimum tax withholdings	(44,270)	—	(685)	—	(685)
Net loss	—	—	—	(3,294)	(3,294)
Balance, December 27, 2020	19,710,549	197	144,897	96,764	241,858
Stock-based compensation	—	—	4,063	—	4,063
Proceeds from exercise of stock options	163,354	2	3,759	—	3,761
Repurchase of shares of common stock	(461,501)	(5)	(14,513)	—	(14,518)
Settlement of restricted stock units	183,467	2	(2)	—	—
Indirect repurchase of shares for minimum tax withholdings	(57,811)	(1)	(2,545)	—	(2,546)
Net income	—	—	—	30,176	30,176
Balance, December 26, 2021	19,538,058	195	135,659	126,940	262,794
Stock-based compensation	—	—	4,011	—	4,011
Proceeds from exercise of stock options	821	—	24	—	24
Repurchase of shares of common stock	(1,661,742)	(17)	(41,639)	—	(41,656)
Settlement of restricted stock units	176,233	2	(2)	—	—
Indirect repurchase of shares for minimum tax withholdings	(55,200)	—	(1,467)	—	(1,467)
Net income	—	—	—	20,855	20,855
Balance, December 25, 2022	17,998,170	\$ 180	\$ 96,586	\$ 147,795	\$ 244,561

See Notes to Consolidated Financial Statements.

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

	Fiscal Year Ended		
	December 25, 2022	December 26, 2021	December 27, 2020
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 20,855	\$ 30,176	\$ (3,294)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>			
Depreciation	20,176	20,197	20,031
Amortization of operating lease assets	9,586	9,574	9,233
Amortization of loan origination costs	87	126	53
Loss on asset impairment, closed restaurant and other costs	3,848	4,114	22,138
Stock-based compensation	3,801	3,867	3,702
Loss on disposal of property and equipment	138	31	437
Deferred income taxes	442	2,406	(5,205)
<b>Changes in operating assets and liabilities:</b>			
Accounts receivable	(193)	(304)	(81)
Lease incentives receivable	(900)	200	50
Inventories	(393)	(227)	208
Income tax receivable and payable	1,562	(109)	(1,506)
Prepaid expenses and other assets	(522)	(112)	(397)
Accounts payable	450	711	(1,302)
Accrued and other liabilities	(1,152)	836	5,173
Operating lease liabilities	(14,979)	(21,706)	(6,526)
Net cash provided by operating activities	<u>42,806</u>	<u>49,780</u>	<u>42,714</u>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment, net	(28,300)	(16,413)	(12,149)
Net cash used in investing activities	<u>(28,300)</u>	<u>(16,413)</u>	<u>(12,149)</u>
<b>Cash flows from financing activities:</b>			
Net proceeds from sale of common stock	—	—	48,167
Borrowings under revolving line of credit	—	—	25,000
Payments under revolving line of credit	—	—	(25,000)
Loan origination costs	—	(260)	(116)
Proceeds from exercise of stock options	24	3,761	234
Repurchase of shares of common stock	(41,656)	(14,518)	(1,422)
Indirect repurchase of shares for minimum tax withholdings	(1,467)	(2,546)	(685)
Net cash (used in) provided by financing activities	<u>(43,099)</u>	<u>(13,563)</u>	<u>46,178</u>
Net (decrease) increase in cash and cash equivalents	<u>(28,593)</u>	<u>19,804</u>	<u>76,743</u>
Cash and cash equivalents, beginning of period	106,621	86,817	10,074
Cash and cash equivalents, end of period	<u>\$ 78,028</u>	<u>\$ 106,621</u>	<u>\$ 86,817</u>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>			
Property and equipment and other assets acquired by accounts payable	<u>\$ 3,482</u>	<u>\$ 439</u>	<u>\$ 26</u>
<b>Supplemental cash flow disclosures:</b>			
Cash paid for interest	<u>\$ 52</u>	<u>\$ 26</u>	<u>\$ 202</u>
Cash paid for income taxes	<u>\$ 352</u>	<u>\$ 1,793</u>	<u>\$ 1,232</u>

See Notes to Consolidated Financial Statements

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

**1. Description of Business**

Chuy's Holdings, Inc., a Delaware corporation (the "Company" or "Chuy's"), through its subsidiaries owns and operates restaurants across 17 states including Texas, the Southeastern and Midwestern United States. All of the Company's restaurants operate under the name Chuy's. The Company operated 98 restaurants as of December 25, 2022, 96 restaurants as of December 26, 2021 and 92 restaurants as of December 27, 2020.

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 subsidiaries. All significant intercompany balances and transactions have been eliminated.

***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, 2022, December 26, 2021 and December 27, 2020 each consisted of 52 weeks.

***COVID-19 pandemic***

The onset of the COVID-19 pandemic at the end of the first quarter of 2020 caused significant disruptions to the Company's business operations as a result of mandatory closures, imposed capacity limitations and other restrictions. As a result, the Company developed a new operating model to address increased off-premise business with proportionately lower indoor dining. This allowed the Company to rightsize its labor model and maximize its restaurant level operating profit at reduced sales volumes. The Company continues to be subject to risks and uncertainties as a result of the COVID-19 pandemic. The challenging labor market, commodity inflation pressures and supply chain shortages across many industries continue to increase costs to operate and stress our business. We cannot predict our ability to continue to operate without capacity limitations in the future which will depend in part on the actions of a number of governmental bodies over which we have no control, the efficacy and public acceptance of vaccination programs in curbing the spread of the virus, the introduction and spread of new variants of the virus, which may prove resistant to currently approved vaccines, and new or reinstated restrictions on our operations.

***Accounting estimates***

The preparation of the consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles ("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. The Company holds cash and cash equivalents at financial institutions in excess of amounts covered by the Federal Deposit Insurance Corporation ("FDIC") and sometimes invests excess cash in money market funds not insured by the FDIC. Cash and cash equivalents are maintained with reputable financial institutions and therefore bear minimal credit risk.

***Lease incentives receivable***

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

***Inventories***

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

***Property and equipment***

Property and equipment, net are recorded at cost, less accumulated depreciation. Equipment consists primarily of restaurant equipment, furniture, fixtures, land and smallwares. Depreciation is calculated using the straight-line method over the estimated

**CHUY'S HOLDINGS, INC.**  
**Notes to Consolidated Financial Statements (Continued)**  
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useful life of the related asset, which ranges from 3 to 15 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 and leasehold improvements***

The Company leases land and or buildings for its corporate offices and the majority of its restaurants under various long-term operating lease agreements. The Company determines if a contract contains a lease at inception. The lease term begins on the date that the Company takes possession under the lease, including the pre-opening period during construction, when in many cases the Company is not making rent payments.

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

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

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

***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 a quantitative test to assess potential impairments at the end of the fiscal year or during the year if an event or other circumstance indicates that goodwill may be impaired. The goodwill impairment test compares the fair value of the reporting unit to the carrying amount, including goodwill. The Company considers all of its stores in total as one reporting unit. If the fair value of the reporting unit is less than the carrying amount, an impairment charge is recorded for the difference, limited to the total amount of goodwill allocated to that reporting unit. No goodwill impairment charges were recognized during 2022, 2021, or 2020.

***Indefinite life intangibles***

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. Intangible assets acquired in a business combination are determined to have an indefinite useful life and are not amortized.

The annual impairment evaluation for indefinite life intangible assets is performed at the end of the fiscal year and includes an assessment to determine whether the fair value of the indefinite life intangible assets is less than their carrying value. We calculate the 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. 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 2022, 2021, or 2020.



**CHUY'S HOLDINGS, INC.**  
**Notes to Consolidated Financial Statements (Continued)**  
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***Impairment of long-lived assets***

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

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

The Company's impairment assessment process requires the use of estimates and assumptions regarding future cash flows and operating outcomes, which are based upon a significant degree of management judgment. The estimates used in the impairment analysis represent a Level 3 fair value measurement. The Company continues to assess the performance of restaurants and monitors the need for future impairment. Changes in the economic environment, real estate markets, capital spending, overall operating performance and underlying assumptions could impact these estimates and result in future impairment charges.

As a result of the above mentioned process, the Company recorded a non-cash loss on asset impairment of \$0.6 million, \$2.7 million and \$20.9 million during the fiscal years ended December 25, 2022, December 26, 2021 and December 27, 2020, respectively.

***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, 2022 and December 26, 2021 approximate their fair value due to the short-term maturities of these financial instruments. These inputs are categorized as Level 1 inputs.

The Company provides a certain group of eligible employees the ability to participate in the Company's nonqualified deferred compensation plan. This plan allows participants to defer up to 80% of their salary and up to 100% of their bonus, on pre-tax basis, and contribute such amounts to one or more investment funds held in a rabbi trust. We report the accounts of the rabbi trust in other assets and intangible assets, net, and the corresponding liability in other liabilities on our consolidated balance sheets. The investments are considered trading securities and are reported at fair value based on quoted market prices. The deferred compensation plan assets and liabilities are measured and recorded at their fair value on a recurring basis. The inputs are recognized as Level 1 inputs. The realized and unrealized gains and losses on these investments, as well as the offsetting compensation expense, are recorded in general and administrative expense in the consolidated statements of income. At December 25, 2022, the Company had approximately \$1.9 million of deferred compensation plan assets and \$2.2 million of deferred plan liabilities. At December 26, 2021, the Company had approximately \$1.2 million of deferred compensation plan assets and \$1.4 million of deferred plan liabilities.

In regards to the Company's impairment analysis, we generally estimate long-lived asset fair values, including property and equipment and leasehold improvements as well as operating lease assets and liabilities, using either depreciated replacement cost method, the market approach or discounted cash flow projections. 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.

**CHUY'S HOLDINGS, INC.**  
**Notes to Consolidated Financial Statements (Continued)**  
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***Revenue recognition***

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

We offer our customers delivery at certain of our restaurants through third party delivery service's website or apps. We recognize this revenue when the control of the food is transferred to the delivery service, excluding any delivery fees charged to the customer. We receive payment subsequent to the transfer of food.

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 as revenue proportionate to the pattern of gift card redemptions less any legal obligation to remit the unredeemed gift cards to the relevant jurisdictions. We recorded \$0.1 million of gift card breakage in fiscal years 2022, 2021 and 2020.

***Marketing***

The Company expenses the printing of menus and other promotional materials as incurred. The costs of community service and sponsorship activities are expensed based on the expected timing of those events. Marketing expense was \$6.0 million, \$4.4 million, and \$2.7 million for the years ended December 25, 2022, December 26, 2021 and December 27, 2020, respectively.

***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 the date of possession and the restaurant opening date.

***Stock-based compensation***

The Company maintains an equity incentive plan under which the Company's board of directors can grant stock options, restricted stock units, and other equity-based awards to directors, officers, and key employees of the Company. The 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 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 over the requisite service period of each award. Forfeitures are recognized when they occur.

***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 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.

**CHUY'S HOLDINGS, INC.**  
**Notes to Consolidated Financial Statements (Continued)**  
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**3. Net Income (Loss) Per Share**

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

Diluted net income (loss) per share of common stock is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential shares of common stock equivalents outstanding during the period using the treasury stock method for dilutive options and restricted stock units (these shares were granted under the Chuy's Holdings, Inc. 2012 Omnibus Equity Incentive Plan (the "2012 Plan") and the Chuy's Holdings, Inc. 2020 Omnibus Incentive Plan (the "2020 Plan")).

There were approximately 48,000, 7,200 and 40,500 shares of common stock equivalents that have been excluded from the calculation of diluted net income (loss) per share because their inclusion would have been anti-dilutive for the years ended December 25, 2022, December 26, 2021 and December 27, 2020, respectively.

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

	Year Ended		
	December 25, 2022	December 26, 2021	December 27, 2020
<b>BASIC</b>			
Net income (loss)	\$ 20,855	\$ 30,176	\$ (3,294)
Weighted-average common shares outstanding	18,682,255	19,835,550	18,396,335
Basic net income (loss) per common share	\$ 1.12	\$ 1.52	\$ (0.18)
<b>DILUTED</b>			
Net income (loss)	\$ 20,855	\$ 30,176	\$ (3,294)
Weighted-average common shares outstanding	18,682,255	19,835,550	18,396,335
Dilutive effect of stock options and restricted stock units	111,200	243,687	—
Weighted-average of diluted shares	18,793,455	20,079,237	18,396,335
Diluted net income (loss) per common share	\$ 1.11	\$ 1.50	\$ (0.18)

**4. Property and Equipment, Net**

The major classes of property and equipment as of December 25, 2022 and December 26, 2021 are summarized as follows:

	December 25, 2022	December 26, 2021
Leasehold improvements	\$ 215,030	\$ 208,010
Furniture, fixtures and equipment	106,226	102,103
Construction in progress	18,722	6,083
Land	5,170	5,170
	345,148	321,366
Less accumulated depreciation	(159,192)	(141,997)
Total property and equipment, net	\$ 185,956	\$ 179,369

**5. Long-Term Debt**

**Revolving Credit Facility**

On July 30, 2021, the Company entered into a secured \$35.0 million revolving credit facility with JPMorgan Chase Bank, N.A. (the "Credit Facility"). The Credit Facility may be increased up to an additional \$25.0 million subject to certain conditions and at the Company's option if the lenders agree to increase their commitments. The Credit Facility will mature on July 30, 2024, unless the Company exercises its option to voluntarily and permanently reduce all of the commitments before the maturity date. In connection with entering the Credit Facility, the Company terminated its \$25.0 million revolving credit facility with Wells Fargo Bank, N.A.

The Credit Facility contains representations and warranties, affirmative and negative covenants and events of default that the Company considers customary for an agreement of this type. The agreement requires the Company to be in compliance with a minimum fixed charge coverage ratio of no less than 1.25 to 1.00, and a maximum consolidated total lease adjusted leverage

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ratio of no more than 4.00 to 1.00. The Credit Facility also has certain restrictions on the payment of dividends and distributions. Under the 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 consolidated total lease adjusted leverage ratio does not exceed 3.50 to 1.00.

Borrowings under the Credit Facility accrue interest at a per annum rate equal to, at the Company's election, either LIBOR plus a margin of .5% to 2.0%, depending on the Company's consolidated total lease adjusted leverage ratio, or a base rate determined according to the highest of (a) the prime rate, (b) the federal funds rate plus 0.5% or (c) LIBOR plus 1.0%, plus a margin of 0.5% to 1.0%, depending on the Company's consolidated total lease adjusted leverage ratio.

An unused commitment fee at a rate of 0.125% applies to unutilized borrowing capacity under the Credit Facility.

The obligations under the Company's Credit Facility are guaranteed by certain subsidiaries of the Company and, subject to certain exceptions, secured by a continuing security interest in substantially all of the Company's assets. As of December 25, 2022, the Company had no borrowings under the Credit Facility, and was in compliance with all covenants under the Credit Facility.

## 6. Accrued Liabilities

The major classes of accrued liabilities at December 25, 2022 and December 26, 2021 are summarized as follows:

	December 25, 2022	December 26, 2021
Accrued compensation and related benefits	\$ 9,117	\$ 11,891
Other accruals	5,202	4,844
Deferred gift card revenue	3,175	2,919
Sales and use tax	3,007	2,806
Property tax	2,820	2,782
Total accrued liabilities	<u>\$ 23,321</u>	<u>\$ 25,242</u>

## 7. Stockholders' Equity

### At-The-Market ("ATM") offering

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

### Share repurchase program

On October 28, 2021, the Company's board of directors replaced the Company's previous \$30.0 million share repurchase program and approved a \$50.0 million share repurchase program which the Company completed as of December 25, 2022. The Company repurchased 1,661,742 shares of common stock for approximately \$41.7 million during fiscal year 2022, 461,501 shares of common stock for approximately \$14.5 million during fiscal year 2021 and 90,144 shares of common stock for approximately \$1.4 million during the first quarter of 2020 and prior to the COVID-19 pandemic.

On October 27, 2022, the Company's Board of Directors approved a new share repurchase program under which the Company may repurchase up to \$0.0 million of its common shares outstanding through December 31, 2024.

Repurchases of the Company's outstanding common stock will be made in accordance with applicable laws and may be made at management's discretion from time to time in the open market, through privately negotiated transactions or otherwise, including pursuant to Rule 10b5-1 trading plans. There is no guarantee as to the exact number of shares to be repurchased by the Company. The timing and extent of repurchases will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, and repurchases may be discontinued at any time.

## 8. Leases

The Company determines if a contract contains a lease at inception. The Company's material long-term operating lease agreements are for the land and buildings for our restaurants as well as our corporate offices. The lease term begins on the date that the Company takes possession under the lease, including the pre-opening period during the construction, when in many cases the Company is not making rent payments. The initial lease terms range from 10 years to 15 years, most of which include

**CHUY'S HOLDINGS, INC.**  
**Notes to Consolidated Financial Statements (Continued)**  
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renewal options totaling 10 to 15 years. The lease term is generally the minimum of the noncancelable period or the lease term including renewal options which are reasonably certain of being exercised up to a term of approximately 20 years.

Operating lease assets and liabilities are recognized at the lease commencement date for material leases with a term of greater than 12 months. Operating lease liabilities represent the present value of future minimum lease payments. Since our leases do not provide an implicit rate, our operating lease liabilities are calculated using the Company's secured incremental borrowing rate at lease commencement. We estimate this rate based on prevailing financial market conditions, comparable companies, credit analysis and management judgment. Minimum lease payments include only fixed lease components of the agreement, as well as variable rate payments that depend on an index, initially measured using the index at the lease commencement date.

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

Operating lease expense is recognized on a straight-line basis over the lease term. Variable lease payments that do not depend on a rate or index, escalation in the index subsequent to the initial measurement, payments associated with non-lease components such as common area maintenance, real estate taxes and insurance, and short-term lease payments (leases with a term with 12 months or less) are expensed as incurred. Certain of the Company's operating leases contain clauses that provide for contingent rent based on a percentage of sales greater than certain specified target amounts. These variable payments are expensed when the achievement of the specified target that triggers the contingent rent is considered probable. As of December 25, 2022, all of the Company's leases were operating.

During the second quarter of 2020, the Company suspended lease payments for the months of April through June 2020 as a result of the COVID-19 pandemic. The Company was able to negotiate rent concessions, abatements and deferrals with landlords on a large portion of our operating leases. FASB issued a clarification to accounting for lease concessions in response to the COVID-19 pandemic to reduce the operational challenges and complexity of lease accounting. The Company used the relief provisions provided by FASB and made an election to account for the lease concessions as if they were part of the original lease agreement. As a result of these negotiations, the Company recorded \$0.2 million and \$0.6 million of deferred rent as part of our operating lease liability as of December 25, 2022 and December 26, 2021, respectively. The recognition of rent concessions did not have a material impact on our consolidated financial statements.

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

	Year Ended	
	December 25, 2022	December 26, 2021
Lease cost		
Operating lease cost	\$ 24,436	\$ 25,425
Variable lease cost	1,315	1,132
	<u>\$ 25,751</u>	<u>\$ 26,557</u>

Supplemental cash flow disclosures and other lease information:

	Year Ended	
	December 25, 2022	December 26, 2021
Cash paid for operating lease liabilities <sup>(a)</sup>	29,969	37,466
Operating lease assets obtained (surrendered) in exchange for operating lease liabilities <sup>(b)</sup>	8,166	(514)

<sup>(a)</sup> The year-ended December 25, 2022 includes \$2.9 million of termination payments for four of our closed restaurant operating leases. The year-ended December 26, 2021 includes \$7.8 million of termination payments for six of our closed restaurant operating leases.

<sup>(b)</sup> The year-ended December 25, 2022 includes a \$9.1 million increase due to new lease commencements and a \$1.6 million increase mainly due to extending remaining lives of certain leases, partially offset by a \$2.5 million decrease to operating lease assets and liabilities related to the termination of four closed restaurant leases. The year-ended December 26, 2021 includes a \$10.1 million decrease to operating lease assets and liabilities related to the termination of six closed restaurant leases and a purchase of one existing lease, partially offset by a \$9.5 million increase mainly due to extending remaining lives of certain leases.

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The Company recorded \$1.9 million of deferred lease incentives during the fiscal year ended December 25, 2022 and no deferred lease incentives during the fiscal year ended December 26, 2021.

Supplemental balance sheet disclosures:

Operating leases	Classification	December 25, 2022	December 26, 2021
Right-of-use assets	Operating lease assets	\$ 146,920	\$ 148,444
Deferred Rent Payments	Operating lease liability	84	447
Current lease liabilities	Operating lease liability	12,415	12,556
		12,499	13,003
Deferred Rent Payments	Operating lease liability, less current portion	68	152
Non-current lease liabilities	Operating lease liability, less current portion	183,602	188,583
		183,670	188,735
<b>Total lease liabilities</b>		<b>\$ 196,169</b>	<b>\$ 201,738</b>
Weighted average remaining lease term (in years)		12.7	13.0
Weighted average discount rate		7.6 %	7.7 %

Future minimum rent payments for our operating leases for each of the next five years as of December 25, 2022 are as follows:

Fiscal years ending:

2023	\$ 26,720
2024	26,163
2025	26,279
2026	25,298
2027	22,894
Thereafter	178,172
<b>Total minimum lease payments</b>	<b>305,526</b>
Less: imputed interest	109,357
<b>Present value of lease liabilities</b>	<b>\$ 196,169</b>

As of December 25, 2022, operating lease payments exclude approximately \$3.0 million of legally binding minimum lease payments for leases signed but which we have not yet taken possession.

**9. Stock-Based Compensation**

The Company has outstanding awards under the 2012 Plan and the 2020 Plan. On July 30, 2020, the Company's stockholders approved the 2020 Plan, which replaced the 2012 Plan and no further awards may be granted under the 2012 Plan. The termination of the 2012 Plan did not affect outstanding awards granted under the 2012 Plan. Options granted under these plans vest over five years from the date of grant and have a maximum term of ten years. As of December 25, 2022, the Company had 12,344 of stock options outstanding and exercisable with a remaining weighted average contractual term of less than one year.

Restricted stock units granted under the 2012 and 2020 Plan vest over 4 to 5 years from the date of grant. As of December 25, 2022, a total of 876,364 shares of common stock were reserved and remained available for issuance under the 2020 Plan.

Stock-based compensation cost recognized in the consolidated statements of income was approximately \$3.8 million, \$3.9 million and \$3.7 million for the years ended December 25, 2022, December 26, 2021 and December 27, 2020, respectively. Stock-based compensation recognized as capitalized development was approximately \$0.2 million for the years ended December 25, 2022, December 26, 2021 and December 27, 2020. Capitalized stock-based compensation is included in Property and equipment, net on the consolidated balance sheets.

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**Notes to Consolidated Financial Statements (Continued)**  
(Tabular dollar amounts in thousands, except share and per share data)

A summary of stock-based compensation activity related to restricted stock units for the year ended December 25, 2022 are as follows:

	Shares	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (Years)
Outstanding at December 26, 2021	417,017	\$ 24.10	
Granted	146,971	31.13	
Vested	(176,233)	23.40	
Forfeited	(4,657)	28.55	
Outstanding at December 25, 2022	<u>383,098</u>	<u>\$ 27.06</u>	<u>2.51</u>

The fair value of the restricted stock units is the quoted market value of our common stock on the date of grant. As of December 25, 2022, total unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately \$7.4 million. This amount is expected to be recognized evenly over the remaining vesting period of the grants.

**10. Impairment, Closed Restaurant And Other Costs**

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

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

The Company's impairment assessment process requires the use of estimates and assumptions regarding future cash flows and operating outcomes, which are based upon a significant degree of management judgment. The estimates used in the impairment analysis represent a Level 3 fair value measurement. The Company continues to assess the performance of restaurants and monitors the need for future impairment. Changes in the economic environment, real estate markets, capital spending, overall operating performance and underlying assumptions could impact these estimates and result in future impairment charges.

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

	Year Ended		
	December 25, 2022	December 26, 2021	December 27, 2020
Property and equipment impairment	\$ 3,507	\$ 2,079	\$ 16,282
Operating lease assets impairment	116	610	4,568
Total impairment charge	<u>3,623</u>	<u>2,689</u>	<u>20,850</u>
Closed restaurant costs	3,131	5,092	5,099
(Gain) loss on lease termination	(302)	2,401	—
COVID-19 related charges	—	—	845
Impairment, closed restaurant and other costs	<u>\$ 6,452</u>	<u>\$ 10,182</u>	<u>\$ 26,794</u>

Closed restaurant costs represent on-going expenses to maintain the closed restaurants such as rent expense, utility and insurance costs.

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

During the year ended December 25, 2022, the Company terminated four of its closed restaurant lease agreements and recorded a \$0.3 million gain on lease termination as well as a \$3.6 million non-cash impairment charge. During the year ended December 26, 2021, the Company terminated six of its closed restaurant lease agreements and recorded a \$2.4 million loss on lease termination as well as a \$2.7 million non-cash impairment charge. During the year ended December 27, 2020, the Company recorded a \$20.9 million impairment charge mainly as a result of restaurant closures, the discontinuation of the complimentary "Nacho Car" as well as a \$0.8 million COVID-19 related charge due to idle development costs as a result of delaying restaurant openings to 2021.

**11. Gain on Insurance Settlements**

During the year ended December 27, 2020, the Company received a one-time insurance settlement in the amount of \$1.0 million under its trade name restoration insurance policy.

**12. Income Taxes**

The provision for federal and state income taxes consisted of the following:

	Year Ended		
	December 25, 2022	December 26, 2021	December 27, 2020
<b>Current:</b>			
Federal	\$ 949	\$ 759	\$ (712)
State	962	917	410
Total current income tax expense (benefit)	1,911	1,676	(302)
<b>Deferred:</b>			
Federal	143	2,009	(4,552)
State	299	397	(653)
Total deferred income tax expense (benefit)	442	2,406	(5,205)
<b>Total income tax expense (benefit)</b>	<b>\$ 2,353</b>	<b>\$ 4,082</b>	<b>\$ (5,507)</b>

Temporary differences between tax and financial reporting basis of assets and liabilities which give rise to the deferred income tax assets (liabilities) and their related tax effects are as follows:

	Year Ended	
	December 25, 2022	December 26, 2021
<b>Deferred tax assets:</b>		
Accrued liabilities	\$ 803	\$ 605
General business tax credits	26,977	25,200
Operating lease liabilities	45,329	46,390
Stock-based compensation	740	702
Other	455	382
Total deferred tax assets	74,304	73,279
<b>Deferred tax liability:</b>		
Intangibles	(9,724)	(9,420)
Prepaid expenses	(1,269)	(1,292)
Property and equipment	(24,378)	(22,930)
Operating lease assets	(33,975)	(34,237)
Total deferred tax liabilities	(69,346)	(67,879)
<b>Deferred tax assets, net</b>	<b>\$ 4,958</b>	<b>\$ 5,400</b>

As of December 25, 2022, the Company has general business tax credits of \$27.0 million expiring from 2037 through 2043.

Deferred tax assets are reduced by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some or all of the deferred taxes will not be realized. Both positive and negative evidence is considered in forming management's judgment as to whether a valuation allowance is appropriate, and more weight is given to evidence that can be objectively verified. The tax benefits relating to any reversal of the valuation allowance on the deferred tax assets would be



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

recognized as a reduction of future income tax expense. As of December 25, 2022, the Company believes that it will realize all of its deferred tax assets. Therefore, no valuation allowance has been recorded.

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") temporarily restored the ability to carryback net operating losses ("NOL") originating in 2018, 2019 and 2020 to offset taxable income in the five preceding years and eliminated the 80% taxable income limitation on such net operating loss deductions if utilized before 2021. Additionally, the CARES Act included an administrative correction of the depreciation recovery period for qualified improvement property ("QIP"), including certain restaurant leasehold improvement costs, that resulted in the acceleration of depreciation on these assets retroactive to 2018. The Company is filing for a refund of overpaid taxes with regards to credits carried back to those years.

The following is a reconciliation of the expected federal income taxes at the statutory rates of 21% for the fiscal year ended December 25, 2022, December 26, 2021 and December 27, 2020 to the actual provision for income taxes:

	Year Ended		
	December 25, 2022	December 26, 2021	December 27, 2020
Expected income tax (benefit) expense	\$ 4,874	\$ 7,194	\$ (1,848)
State tax expense (benefit), net of federal benefit	1,003	1,039	(192)
FICA tip credit	(3,678)	(3,361)	(2,539)
Deferred tax balance adjustment <sup>(a)</sup>	—	—	(1,079)
Officers' compensation	230	536	66
Stock compensation	(116)	(1,275)	344
Other	40	(51)	(259)
Income tax expense (benefit)	<u>\$ 2,353</u>	<u>\$ 4,082</u>	<u>\$ (5,507)</u>

<sup>(a)</sup> Deferred tax balance adjustment recorded during fiscal 2020 is associated with a carryback of federal NOLs due to the CARES Act administrative correction of the depreciation recovery period for QIP.

The Internal Revenue Service ("IRS") audited our tax return for the fiscal year 2016. In August 2020, the IRS issued a Notice of Proposed Adjustment to the Company asserting that the tenant allowances paid to us under our operating leases should be recorded as taxable income for years 2016 and prior. The Company disagrees with this position based on the underlying facts and circumstances as well as standard industry practice. The Company estimates if the IRS's position was upheld, the Company's tax liability associated with this position could range between \$0.5 million and \$2.5 million. In accordance with the provisions of FASB Accounting Standards Codification Subtopic 740-10, *Accounting for Uncertainty in Income Taxes*, the Company believes that it is more likely than not that the Company's position will ultimately be sustained upon further examination, including the resolution of the IRS's appeal or litigation processes, if any. As of December 25, 2022 and December 26, 2021, 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.

The tax years 2021, 2020 and 2019 remain open for IRS audit. The Company has received no notice of audit or any notifications from the IRS for any of the open tax years.

### 13. Contingencies

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

**Subsidiary**

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Chuy's Opco, Inc.  
Chuy's Kansas, LLC  
Chuy's Marketing Services, LLC

**Jurisdiction of Incorporation**

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Delaware  
Kansas  
Indiana

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements (No. 333-185948 and 333-242359) on Form S-8, and the Registration Statement (No. 333-238011) on Form S-3 of Chuy's Holdings, Inc., of our reports dated February 21, 2023, relating to the consolidated financial statements and the effectiveness of internal control over financial reporting of Chuy's Holdings, Inc., appearing in this Annual Report on Form 10-K of Chuy's Holdings, Inc. for the year ended December 25, 2022.

/s/ RSM US LLP

Austin, Texas

February 21, 2023

**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 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 an 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: February 21, 2023

/s/ Steven J. Hislop

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

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

I, Jon W. Howie, certify that:

1. I have reviewed this 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 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 an 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: February 21, 2023

/s/ Jon W. Howie

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

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

In connection with the Annual Report on Form 10-K of Chuy's Holdings, Inc., a Delaware Corporation (the "Company"), for the year ended December 25, 2022, 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: February 21, 2023

/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)