

---

---

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

---

**FORM 10-Q**

---

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

For the quarterly period ended September 29, 2019

OR

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

Commission File No. 001-35603

---

**CHUY'S HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State of Incorporation  
or Organization)

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

**1623 TOOMEY ROAD**  
**AUSTIN, TEXAS**  
(Address of Principal Executive Offices)

**78704**  
(Zip Code)

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

---

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

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

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

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

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

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

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

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

The number of shares of the registrant's common stock outstanding at October 25, 2019 was 16,614,644.

---

**Table of Contents**

<a href="#">Part I – Financial Information</a>	<a href="#">3</a>
<a href="#">Item 1. Financial Statements</a>	<a href="#">3</a>
<a href="#">Condensed Consolidated Balance Sheets</a>	<a href="#">3</a>
<a href="#">Unaudited Condensed Consolidated Income Statements</a>	<a href="#">4</a>
<a href="#">Unaudited Condensed Consolidated Statements of Stockholders' Equity</a>	<a href="#">5</a>
<a href="#">Unaudited Condensed Consolidated Statements of Cash Flows</a>	<a href="#">6</a>
<a href="#">Notes to Unaudited Condensed Consolidated Financial Statements</a>	<a href="#">7</a>
<a href="#">Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</a>	<a href="#">15</a>
<a href="#">Item 3. Quantitative and Qualitative Disclosures about Market Risk</a>	<a href="#">24</a>
<a href="#">Item 4. Controls and Procedures</a>	<a href="#">24</a>
<a href="#">Part II – Other Information</a>	<a href="#">24</a>
<a href="#">Item 1. Legal Proceedings</a>	<a href="#">24</a>
<a href="#">Item 1A. Risk Factors</a>	<a href="#">24</a>
<a href="#">Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</a>	<a href="#">25</a>
<a href="#">Item 3. Defaults Upon Senior Securities</a>	<a href="#">25</a>
<a href="#">Item 4. Mine Safety Disclosures</a>	<a href="#">25</a>
<a href="#">Item 5. Other Information</a>	<a href="#">25</a>
<a href="#">Item 6. Exhibits</a>	<a href="#">25</a>

**Part I—Financial Information**

**Item 1. Financial Statements**

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

	September 29, 2019	December 30, 2018
	(Unaudited)	
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 10,476	\$ 8,199
Accounts receivable	1,199	2,054
Lease incentives receivable	358	1,597
Income tax receivable	—	603
Inventories	1,635	1,541
Prepaid expenses and other current assets	6,823	3,736
Total current assets	20,491	17,730
Property and equipment, net	210,557	210,960
Operating lease assets	170,618	—
Other assets and intangible assets, net	700	2,425
Tradenname	21,900	21,900
Goodwill	24,069	24,069
Total assets	\$ 448,335	\$ 277,084
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 4,763	\$ 6,463
Accrued liabilities	22,564	17,221
Operating lease liabilities	9,705	—
Deferred lease incentives	—	2,959
Total current liabilities	37,032	26,643
Deferred tax liability, net	—	2,601
Operating lease liabilities, less current portion	216,010	—
Accrued deferred rent	—	14,516
Deferred lease incentives, less current portion	—	39,473
Total liabilities	253,042	83,233
Commitments and contingencies (Note 8)		
Stockholders' equity:		
Common stock, \$0.01 par value; 60,000,000 shares authorized; 16,614,644 shares issued and outstanding at September 29, 2019 and 16,856,373 shares issued and outstanding at December 30, 2018	166	169
Preferred stock, \$0.01 par value; 15,000,000 shares authorized and no shares issued or outstanding at September 29, 2019 and December 30, 2018	—	—
Paid-in capital	93,639	99,490
Retained earnings	101,488	94,192
Total stockholders' equity	195,293	193,851
Total liabilities and stockholders' equity	\$ 448,335	\$ 277,084

See notes to the Unaudited Condensed Consolidated Financial Statements

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Revenue	\$ 109,082	\$ 101,175	\$ 324,325	\$ 301,366
Costs and expenses:				
Cost of sales	28,673	25,899	83,562	76,430
Labor	38,770	37,395	114,323	108,274
Operating	16,127	14,947	46,583	43,072
Occupancy	8,206	7,728	24,340	22,297
General and administrative	5,975	4,811	18,010	15,517
Marketing	1,492	1,016	4,487	3,185
Restaurant pre-opening	457	994	2,357	3,725
Legal settlement	—	—	775	—
Impairment and closure costs	7,300	12,336	7,888	12,336
Depreciation and amortization	5,284	5,089	15,485	14,705
Total costs and expenses	<u>112,284</u>	<u>110,215</u>	<u>317,810</u>	<u>299,541</u>
(Loss) income from operations	(3,202)	(9,040)	6,515	1,825
Interest expense, net	28	24	90	59
(Loss) income before income taxes	(3,230)	(9,064)	6,425	1,766
Income tax benefit	(1,413)	(1,554)	(1,220)	(363)
Net (loss) income	<u>\$ (1,817)</u>	<u>\$ (7,510)</u>	<u>\$ 7,645</u>	<u>\$ 2,129</u>
Net (loss) income per common share:				
Basic	<u>\$ (0.11)</u>	<u>\$ (0.44)</u>	<u>\$ 0.46</u>	<u>\$ 0.13</u>
Diluted	<u>\$ (0.11)</u>	<u>\$ (0.44)</u>	<u>\$ 0.45</u>	<u>\$ 0.12</u>
Weighted-average shares outstanding:				
Basic	<u>16,615,927</u>	<u>16,948,701</u>	<u>16,764,010</u>	<u>16,940,777</u>
Diluted	<u>16,720,662</u>	<u>17,114,190</u>	<u>16,836,430</u>	<u>17,081,371</u>

See notes to the Unaudited Condensed Consolidated Financial Statements

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

	Thirteen Weeks Ended				
	Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, July 1, 2018	16,946,362	\$ 169	\$ 99,830	\$ 98,292	\$ 198,291
Stock-based compensation	—	—	852	—	852
Proceeds from exercise of stock options	2,577	—	42	—	42
Settlement of restricted stock units	2,240	1	—	—	1
Indirect repurchase of shares for minimum tax withholdings	(800)	—	(23)	—	(23)
Net loss	—	—	—	(7,510)	(7,510)
Balance, September 30, 2018	<u>16,950,379</u>	<u>\$ 170</u>	<u>\$ 100,701</u>	<u>\$ 90,782</u>	<u>\$ 191,653</u>
Balance, June 30, 2019	16,698,652	\$ 167	\$ 94,820	\$ 103,305	\$ 198,292
Stock-based compensation	—	—	856	—	856
Proceeds from exercise of stock options	9,574	—	85	—	85
Settlement of restricted stock units	2,642	—	—	—	—
Repurchase of shares of common stock	(95,294)	(1)	(2,099)	—	(2,100)
Indirect repurchase of shares for minimum tax withholdings	(930)	—	(23)	—	(23)
Net loss	—	—	—	(1,817)	(1,817)
Balance, September 29, 2019	<u>16,614,644</u>	<u>\$ 166</u>	<u>\$ 93,639</u>	<u>\$ 101,488</u>	<u>\$ 195,293</u>

	Thirty-Nine Weeks Ended				
	Common Stock		Paid-in Capital	Retained Earnings	Total
	Shares	Amount			
Balance, December 31, 2017	16,923,741	\$ 169	\$ 100,140	\$ 88,653	\$ 188,962
Stock-based compensation	—	—	2,511	—	2,511
Proceeds from exercise of stock options	25,745	—	454	—	454
Settlement of restricted stock units	94,395	1	(1)	—	—
Repurchase of shares of common stock	(64,757)	—	(1,618)	—	(1,618)
Indirect repurchase of shares for minimum tax withholdings	(28,745)	—	(785)	—	(785)
Net income	—	—	—	2,129	2,129
Balance, September 30, 2018	<u>16,950,379</u>	<u>\$ 170</u>	<u>\$ 100,701</u>	<u>\$ 90,782</u>	<u>\$ 191,653</u>
Balance, December 30, 2018	16,856,373	169	\$ 99,490	\$ 94,192	\$ 193,851
Adoption of ASC 842 (Leases)	—	—	—	(349)	(349)
Stock-based compensation	—	—	2,582	—	2,582
Proceeds from exercise of stock options	26,217	—	218	—	218
Settlement of restricted stock units	121,823	1	(1)	—	—
Repurchase of shares of common stock	(351,774)	(4)	(7,789)	—	(7,793)
Indirect repurchase of shares for minimum tax withholdings	(37,995)	—	(861)	—	(861)
Net income	—	—	—	7,645	7,645
Balance, September 29, 2019	<u>16,614,644</u>	<u>\$ 166</u>	<u>\$ 93,639</u>	<u>\$ 101,488</u>	<u>\$ 195,293</u>

See notes to the Unaudited Condensed Consolidated Financial Statements

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

	Thirty-Nine Weeks Ended	
	September 29, 2019	September 30, 2018
<b>Cash flows from operating activities:</b>		
Net income	\$ 7,645	\$ 2,129
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	15,485	14,705
Amortization of operating lease assets	(303)	—
Amortization of loan origination costs	25	25
Loss on asset impairment	7,114	12,336
Stock-based compensation	2,423	2,368
Loss on disposal of property and equipment	220	—
Amortization of deferred lease incentives	—	(2,143)
Deferred income taxes	(2,494)	(847)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	855	1,746
Lease incentive receivable	1,239	5,519
Income tax receivable	603	(81)
Inventories	(94)	122
Prepaid expenses and other current assets	(3,087)	(442)
Accounts payable	(2,434)	(2,160)
Accrued liabilities	5,343	1,588
Operating lease liabilities	89	—
Accrued deferred rent	—	2,225
Deferred lease incentives	—	1,759
Net cash provided by operating activities	<u>32,629</u>	<u>38,849</u>
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(21,487)	(34,656)
Purchase of other assets	(429)	(216)
Net cash used in investing activities	<u>(21,916)</u>	<u>(34,872)</u>
<b>Cash flows from financing activities:</b>		
Borrowings under revolving line of credit	5,000	—
Payments under revolving line of credit	(5,000)	—
Repurchase of shares of common stock	(7,793)	(1,618)
Proceeds from the exercise of stock options	218	454
Indirect repurchase of shares for minimum tax withholdings	(861)	(785)
Net cash used in financing activities	<u>(8,436)</u>	<u>(1,949)</u>
Net increase in cash and cash equivalents	2,277	2,028
Cash and cash equivalents, beginning of period	8,199	8,785
Cash and cash equivalents, end of period	<u>\$ 10,476</u>	<u>\$ 10,813</u>
<b>Supplemental disclosure of non-cash investing and financing activities:</b>		
Property and equipment and other assets acquired by accounts payable	<u>\$ 734</u>	<u>\$ —</u>
<b>Supplemental cash flow disclosures:</b>		
Cash paid for interest	<u>\$ 53</u>	<u>\$ 35</u>
Cash paid for income taxes	<u>\$ 593</u>	<u>\$ 565</u>

See notes to the Unaudited Condensed Consolidated Financial Statements

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

**1. Basis of Presentation**

Chuy's Holdings, Inc. (the "Company" or "Chuy's") develops and operates Chuy's restaurants throughout the United States. Chuy's is a growing, full-service restaurant concept offering a distinct menu of authentic, freshly-prepared Mexican and Tex-Mex inspired food. As of September 29, 2019, the Company operated 103 restaurants in 19 states.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements and the related notes reflect all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods presented. The unaudited condensed consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles ("GAAP"), except that certain information and notes have been condensed or omitted pursuant to rules and regulations of the Securities and Exchange Commission (the "SEC"). Results for interim periods are not necessarily indicative of the results that may be expected for the full fiscal year. The unaudited condensed consolidated financial statements should be read in conjunction with consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2018. The accompanying condensed consolidated balance sheet as of December 30, 2018, has been derived from our audited consolidated financial statements.

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

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

The Company operates on a 52- or 53- week fiscal year that ends on the last Sunday of the calendar year. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter has 14 weeks. Our 2019 and 2018 fiscal years both consist of 52 weeks.

**2. Recent Accounting Pronouncements**

*Leases*

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

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

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

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

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

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

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

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

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

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

Diluted net (loss) income per share of the Company's common stock is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential shares of common stock equivalents outstanding during the period using the treasury stock method for dilutive options and deferred shares (these deferred shares were granted under the Chuy's Holdings, Inc. 2012 Omnibus Equity Incentive Plan (the "2012 Plan"), and are referred to herein as "restricted stock units"). For the thirteen weeks ended September 29, 2019 and September 30, 2018, there were approximately 20,900 and 1,300 shares, respectively, of common stock equivalents that were excluded from the calculation of diluted net (loss) income per share because their inclusion would have been anti-dilutive. For the thirty-nine weeks ended September 29, 2019 and September 30, 2018, there were approximately 32,200 and 2,600 shares, respectively, of common stock equivalents that were excluded from the calculation of diluted net (loss) income per share because their inclusion would have been anti-dilutive.



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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
<b>BASIC</b>				
Net (loss) income	\$ (1,817)	\$ (7,510)	\$ 7,645	\$ 2,129
Weighted-average common shares outstanding	16,615,927	16,948,701	16,764,010	16,940,777
Basic net (loss) income per common share	<u>\$ (0.11)</u>	<u>\$ (0.44)</u>	<u>\$ 0.46</u>	<u>\$ 0.13</u>
<b>DILUTED</b>				
Net (loss) income	\$ (1,817)	\$ (7,510)	\$ 7,645	\$ 2,129
Weighted-average common shares outstanding	16,615,927	16,948,701	16,764,010	16,940,777
Dilutive effect of stock options and restricted stock units	104,735	165,489	72,420	140,594
Weighted-average of diluted shares	16,720,662	17,114,190	16,836,430	17,081,371
Diluted net (loss) income per common share	<u>\$ (0.11)</u>	<u>\$ (0.44)</u>	<u>\$ 0.45</u>	<u>\$ 0.12</u>

**4. Stock-Based Compensation**

The Company has outstanding awards under the Chuy's Holdings, Inc. 2006 Stock Option Plan (the "2006 Plan") and the 2012 Plan. The 2006 Plan was terminated by the board effective July 27, 2012, and no further awards may be granted under the plan after such date. However, the termination of the 2006 Plan did not affect outstanding awards granted. Options granted under these plans vest over five years from the date of grant and have a maximum term of 10 years. Restricted stock units granted under the 2012 Plan vest over four to five years from the date of grant. As of September 29, 2019, a total of 343,878 shares of common stock are reserved and remain available for issuance under the 2012 Plan.

Stock-based compensation expense recognized in the accompanying condensed consolidated income statements was approximately \$801,000 and \$811,000 for the thirteen weeks ended September 29, 2019 and September 30, 2018, respectively, and \$2,423,000 and \$2,368,000 for the thirty-nine weeks ended September 29, 2019 and September 30, 2018, respectively.

**Stock Options**

A summary of stock-based compensation activity related to stock options for the thirty-nine weeks ended September 29, 2019 are as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 30, 2018	246,831	\$ 19.67		
Exercised	(26,217)	8.31		
Forfeited	(1,383)	32.53		
Outstanding at September 29, 2019	<u>219,231</u>	<u>\$ 20.94</u>	<u>2.70</u>	<u>\$ 1,230</u>
Exercisable at September 29, 2019	<u>219,094</u>	<u>\$ 20.94</u>	<u>2.70</u>	<u>\$ 1,230</u>

The aggregate intrinsic value in the table above is obtained by subtracting the exercise price from the estimated fair value of the underlying common stock as of September 29, 2019 and multiplying this result by the related number of options outstanding and exercisable at September 29, 2019. The estimated fair value of the common stock as of September 29, 2019 used in the above calculation was \$24.40 per share, the closing price of the Company's common stock on September 27, 2019, the last trading day of the third quarter. The total intrinsic value of options exercised during the thirty-nine weeks ended September 29, 2019 was

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

approximately \$381,000. The fair value of options vested during the thirty-nine weeks ended September 29, 2019 was approximately \$10,000.

There was no unrecognized compensation expense related to options granted under the 2006 Plan and the 2012 Plan as of September 29, 2019.

**Restricted Stock Units**

A summary of stock-based compensation activity related to restricted stock units for the thirty-nine weeks ended September 29, 2019 are as follows:

	Shares	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (Year)
Outstanding at December 30, 2018	368,402	\$ 27.01	
Granted	177,813	22.43	
Vested	(121,823)	27.23	
Forfeited	(18,170)	25.58	
Outstanding at September 29, 2019	<u>406,222</u>	<u>\$ 25.00</u>	<u>2.71</u>

The fair value of the restricted stock units is the quoted market value of our common stock on the date of grant. As of September 29, 2019, total unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately \$8.2 million. This amount is expected to be recognized evenly over the remaining vesting period of the grants.

**5. Long-Term Debt**

**Revolving Credit Facility**

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

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

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

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

The obligations under the Company's Revolving Credit Facility are secured by a first priority lien on substantially all of the Company's assets. As of September 29, 2019, the Company had no borrowings under our Revolving Credit Facility.

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

**6. Accrued Liabilities**

The major classes of accrued liabilities at September 29, 2019 and December 30, 2018 are summarized as follows:

	September 29, 2019	December 30, 2018
Accrued compensation and related benefits	\$ 10,637	\$ 6,807
Other accruals	4,930	3,604
Sales and use tax	2,913	2,848
Property tax	2,624	1,786
Deferred gift card revenue	1,460	2,176
Total accrued liabilities	<u>\$ 22,564</u>	<u>\$ 17,221</u>

**7. Share Repurchase Program**

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

We repurchased approximately 95,000 and 351,000 shares of common stock for \$2.1 million and \$7.8 million, respectively, during the thirteen and thirty-nine weeks ended September 29, 2019, respectively. As of September 29, 2019, we have \$18.6 million remaining to be repurchased under this plan.

**8. Commitments and Contingencies**

On June 11, 2019, James Dulanto filed a lawsuit against the Company in the Circuit Court of the Fifteenth Judicial Circuit in and for Palm Beach County, Florida on behalf of a purported class of assistant managers employed during a three year period. It alleged that assistant managers were not paid overtime compensation during and after training because they were misclassified as exempt employees. The lawsuit sought damages for overtime hours, liquidated damages, pre-judgment interest, attorney's fees, costs and other relief. On July 12, 2019, we reached an agreement providing for an opt-in collective action settlement. The parties filed a motion seeking judicial approval of the settlement, which was approved by the court. As of September 29, 2019, we have \$0.8 million in escrow to settle claims, attorney's fees, and other legal costs related to this lawsuit. This amount is based on the estimated opt-in participation and we may ultimately incur liabilities greater or less than this amount.

We are also involved in various other 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.

**9. Leases**

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

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.

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

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. Rent expense is paid to various landlords including several companies owned and controlled by the Company's founders and one of its former executive officers. As of September 29, 2019, all of the Company's leases were operating.

Components of operating lease costs are included in the occupancy, general and administrative expense and property and equipment, net:

Lease cost	Thirteen Weeks Ended September 29, 2019			Thirty-Nine Weeks Ended September 29, 2019		
	Unrelated Parties	Related Party	Total	Unrelated Parties	Related Party	Total
Operating lease cost <sup>(a)</sup>	\$ 5,647	\$ 576	\$ 6,223	\$ 16,654	\$ 1,728	\$ 18,382
Variable lease cost	160	155	315	382	483	865
	<u>\$ 5,807</u>	<u>\$ 731</u>	<u>\$ 6,538</u>	<u>\$ 17,036</u>	<u>\$ 2,211</u>	<u>\$ 19,247</u>

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

Supplemental cash flow disclosures and other lease information for the thirteen weeks ended September 29, 2019:

Cash paid for operating lease liabilities	19,177
Operating lease assets obtained in exchange for operating lease liabilities (a)	176,511
Weighted average remaining lease term (in years)	15.3
Weighted average discount rate	7.8%

<sup>(a)</sup> Includes the transition adjustment for the adoption of Leases (Topic 842) as discussed in Note 2, *Recent Accounting Pronouncements* in the notes to our unaudited condensed consolidated financial statements. As a result of the store closures, the Company also shortened the remaining life of the related leases and recorded a \$1.3 million reduction to the operating lease assets and liabilities during the first quarter of 2019.

Supplemental balance sheet disclosures:

Operating leases	Classification	September 29, 2019
Right-of-use assets	Operating lease assets	<u>\$ 170,618</u>
Current lease liabilities	Operating lease liability	\$ 9,705
Non-current lease liabilities	Operating lease liability, less current portion	216,010
Total lease liabilities		<u>\$ 225,715</u>

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

Future minimum rent payments for our operating leases for each of the next five years as of September 29, 2019 are as follows:

	Unrelated Parties	Related Party	Total
<b>Fiscal year ending:</b>			
Remainder of 2019	\$ 6,029	\$ 570	\$ 6,599
2020	24,565	2,286	26,851
2021	24,932	2,292	27,224
2022	24,775	1,439	26,214
2023	25,143	1,446	26,589
Thereafter	274,363	1,205	275,568
Total minimum lease payments	379,807	9,238	389,045
Less: imputed interest	161,852	1,478	163,330
Present value of lease liabilities	<u>\$ 217,955</u>	<u>\$ 7,760</u>	<u>\$ 225,715</u>

As of September 29, 2019, operating lease payments exclude approximately \$15.8 million of legally binding minimum lease payments for leases signed but which we have not yet taken possession.

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

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

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

**10. Impairment and closure costs**

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

We make assumptions to estimate future cash flows and asset fair values. The estimated fair value is generally determined using the depreciated replacement cost method, the 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.

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

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 approximately \$7.1 million relating to five restaurants and \$12.3 million relating to six restaurants during the thirteen weeks ended September 29, 2019 and September 30, 2018, respectively.

We also recorded closure costs of approximately \$0.2 million and \$0.8 million for the thirteen and thirty-nine weeks ended September 29, 2019, respectively, associated with two restaurants closed during the first quarter of 2019, one in Atlanta, Georgia, and one in Miami, Florida.

**11. Subsequent events**

Subsequent to September 29, 2019, the Company opened one new restaurant for a total of 104 restaurants in 19 states.

Subsequent to the end of the third quarter, the Company's Board of Directors authorized a new share repurchase program under which the Company may, at its discretion, repurchase up to \$30 million of its common shares outstanding. This repurchase program becomes effective on January 1, 2020, after the expiration of the previous share repurchase authorization, and expires on December 31, 2022. Repurchases of the Company's outstanding common stock will be made in accordance with applicable securities 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.

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

*The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and accompanying notes. Unless otherwise specified, or the context otherwise requires, the references in this report to "Chuy's," "our Company," "the Company," "us," "we" and "our" refer to Chuy's Holdings, Inc. together with its subsidiaries.*

*The following discussion contains, in addition to historical information, forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. We use words such as "anticipated", "believe", "could", "should", "estimate", "intend", "may", "consider", "predict", "project", "target", and other similar terms and phrases, including references to assumptions to identify forward looking statements. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including changes in the economic environment, real estate markets, capital spending and our overall operating performance and those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 30, 2018 (our "Annual Report") and those set forth under "Cautionary Statement Concerning Forward-Looking Statements" in this report.*

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

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

### Overview

We are a growing, full-service restaurant concept offering a distinct menu of authentic, freshly-prepared Mexican and Tex-Mex inspired food. We were founded in Austin, Texas in 1982 and, as of September 29, 2019, we operated 103 Chuy's restaurants across 19 states.

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

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

### Our Growth Strategies and Outlook

Our growth is based primarily on the following strategies:

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

During the 39-week period ended September 29, 2019, we opened five new restaurants and we also opened one additional restaurant subsequent to September 29, 2019. We have an established presence in Texas, the Southeast and the Midwest, with restaurants in multiple large markets in these regions. Our growth plan over the next five years focuses on developing additional locations in our existing core markets and major new markets while continuing to "backfill" our smaller existing markets in order to build our brand awareness.

### Performance Indicators

We use the following performance indicators in evaluating our performance:

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

- *Comparable Restaurant Sales.* We consider a restaurant to be comparable in the first full quarter following the 18th month of operations. Changes in comparable restaurant sales reflect changes in sales for the comparable group of restaurants over a specified period of time. Changes in comparable sales reflect changes in customer count trends as well as changes in average check. Our comparable restaurant base consisted of 90 and 80 restaurants at September 29, 2019 and September 30, 2018, respectively.
- *Average Check.* Average check is calculated by dividing revenue by total entrées sold for a given time period. Average check reflects menu price increases as well as changes in menu mix. Our management team uses this indicator to analyze trends in customers' preferences, effectiveness of menu changes and price increases and per customer expenditures.
- *Average Weekly Customers.* Average weekly customers is measured by the number of entrées sold per week. Our management team uses this metric to measure changes in customer traffic.
- *Average Unit Volume.* Average unit volume consists of the average sales of our comparable restaurants over a certain period of time. This measure is calculated by dividing total comparable restaurant sales within a period of time by the total number of comparable restaurants within the relevant period. This indicator assists management in measuring changes in customer traffic, pricing and development of our brand.
- *Operating Margin.* Operating margin represents income from operations as a percentage of our revenue. By monitoring and controlling our operating margins, we can gauge the overall profitability of our Company.

The following table presents operating data for the periods indicated:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 29, 2019	September 30, 2018	September 29, 2019	September 30, 2018
Total restaurants (at end of period)	103	98	103	98
Total comparable restaurants (at end of period)	90	80	90	80
Average unit volumes (in thousands)	\$ 1,070	\$ 1,058	\$ 3,292	\$ 3,257
Change in comparable restaurant sales <sup>(1)</sup>	2.6%	0.5%	2.5%	0.3%
Average check	\$ 15.78	\$ 15.03	\$ 15.75	\$ 15.09

<sup>(1)</sup> We consider a restaurant to be comparable in the first full quarter following the 18th month of operations. Change in comparable restaurant sales reflects changes in sales for the comparable group of restaurants over a specified period of time. Due to the inclusion of a 53rd week in fiscal 2017, there is a one-week calendar shift in the calculation of September 30, 2018 comparable restaurant sales.

#### **Our Fiscal Year**

We operate on a 52- or 53-week fiscal year that ends on the last Sunday of the calendar year. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter has 14 weeks. Our 2019 and 2018 fiscal years each consists of 52 weeks.

#### **Key Financial Definitions**

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

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

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

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

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

*General and Administrative Expenses.* General and administrative expenses include costs associated with corporate and administrative functions that support our operations, including senior and supervisory management and staff compensation



(including stock-based compensation) and benefits, travel, legal and professional fees, information systems, corporate office rent and other related corporate costs.

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

*Restaurant Pre-opening Costs.* Restaurant pre-opening costs consist of costs incurred before opening a restaurant, including manager salaries, relocation costs, supplies, recruiting expenses, initial new market public relations costs, pre-opening activities, employee payroll and related training costs for new employees. Restaurant pre-opening costs also include rent recorded during the period between date of possession and the restaurant opening date.

*Impairment and closure costs.* Impairment costs include impairment of long-lived assets associated with restaurants where the carrying amount of the asset is not recoverable and exceeds the fair value of the asset. Closure costs consist of any costs associated with the closure of a restaurant, including lease termination costs, rent payments and other miscellaneous closing costs.

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

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

## **Results of Operations**

### ***Potential Fluctuations in Quarterly Results and Seasonality***

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

Our business is also subject to fluctuations due to seasonality and adverse weather. The spring and summer months have traditionally had higher sales volume than other periods of the year. Timing of holidays, severe winter weather, hurricanes, thunderstorms and similar conditions may impact restaurant unit volumes in some of the markets where we operate and may have a greater impact should they occur during our higher volume months. As a result of these and other factors, our financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year.

**Thirteen Weeks Ended September 29, 2019 Compared to Thirteen Weeks Ended September 30, 2018**

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

	Thirteen Weeks Ended					
	September 29, 2019	% of Revenue	September 30, 2018	% of Revenue	\$ Change	% Change
Revenue	\$ 109,082	100.0 %	\$ 101,175	100.0 %	\$ 7,907	7.8 %
Costs and expenses:						
Cost of sales	28,673	26.3	25,899	25.6	2,774	10.7
Labor	38,770	35.5	37,395	37.0	1,375	3.7
Operating	16,127	14.8	14,947	14.8	1,180	7.9
Occupancy	8,206	7.5	7,728	7.6	478	6.2
General and administrative	5,975	5.5	4,811	4.8	1,164	24.2
Marketing	1,492	1.4	1,016	1.0	476	46.9
Restaurant pre-opening	457	0.4	994	1.0	(537)	(54.0)
Impairment and closure costs	7,300	6.7	12,336	12.2	(5,036)	(40.8)
Depreciation and amortization	5,284	4.8	5,089	5.0	195	3.8
Total costs and expenses	112,284	102.9	110,215	109.0	2,069	1.9
(Loss) income from operations	(3,202)	(2.9)	(9,040)	(9.0)	5,838	(64.6)
Interest expense, net	28	0.1	24	—	4	16.7
(Loss) income before income taxes	(3,230)	(3.0)	(9,064)	(9.0)	5,834	(64.4)
Income tax benefit	(1,413)	(1.3)	(1,554)	(1.5)	141	(9.1)
Net (loss) income	\$ (1,817)	(1.7)%	\$ (7,510)	(7.5)%	\$ 5,693	(75.8)%

**Revenue.** Revenue increased \$7.9 million, or 7.8%, to \$109.1 million for the thirteen weeks ended September 29, 2019 from \$101.2 million for the comparable period in 2018. This increase was primarily driven by \$7.7 million in incremental revenue from an additional 93 operating weeks provided by new restaurants. These increases were partially offset by a decrease in sales related to non-comparable restaurants that are not included in the incremental revenue discussed above. Revenue for non-comparable restaurants is historically lower as the restaurants transition out of the 'honeymoon' period that follows a restaurant's initial opening.

Comparable restaurant sales increased 2.6% for the thirteen weeks ended September 29, 2019 compared to the thirteen weeks ended September 30, 2018. The increase in comparable restaurant sales was primarily driven by a 4.5% increase in average check, partially offset by 1.9% decrease in average weekly customers. Our bar sales were approximately 18.3% of total sales during both the thirteen weeks ended September 29, 2019 and the comparable period in 2018.

**Cost of Sales.** Cost of sales as a percentage of revenue increased to 26.3% during the thirteen weeks ended September 29, 2019 from 25.6% during the same period in 2018 primarily as a result of an increase in the cost of beef of approximately 50 basis points, produce of approximately 50 basis points, and dairy of approximately 10 basis points. These increases were partially offset by a decrease in chicken costs of approximately 20 basis points and grocery costs of approximately 20 basis points.

**Labor Costs.** Labor costs as a percentage of revenue decreased to 35.5% during the thirteen weeks ended September 29, 2019 from 37.0% during the comparable period in 2018 primarily due to leverage on higher sales, increased labor efficiency at new store openings and lower training expense for our new managers, partially offset by hourly labor rate inflation of approximately 3.1%.

**Operating Costs.** Operating costs as a percentage of revenue remained flat at 14.8% during the thirteen weeks ended September 29, 2019 as compared to the same period in 2018.

**Occupancy Costs.** Occupancy costs as a percentage of revenue decreased to 7.5% during the thirteen weeks ended September 29, 2019 from 7.6% during the comparable period in 2018, primarily as a result of leverage of fixed occupancy costs on higher sales, partially offset by higher rental expense at certain newly opened restaurants in larger markets and higher property taxes.

**General and Administrative Expenses.** General and administrative expenses increased to \$6.0 million for the thirteen weeks ended September 29, 2019 as compared to \$4.8 million for the same period in 2018. The increase was primarily driven by a \$0.7 million increase in performance-based bonuses and management salaries, a \$0.1 million increase in professional and legal fees and a \$0.1 million increase in technology-related fees.

**Restaurant Pre-opening Costs.** Restaurant pre-opening costs decreased to \$0.5 million for the thirteen weeks ended September 29, 2019 as compared to \$1.0 million for the same period in 2018. This decrease was primarily driven by a reduced development pipeline and timing of new restaurant openings in fiscal year 2019 as compared to the same period in 2018. During the thirteen

weeks ended September 29, 2019, we incurred pre-opening costs for four new restaurants, of which three will open in the fourth quarter of 2019 or later. During the comparable period in 2018, we incurred pre-opening costs for five new restaurants, of which two opened in the fourth quarter of 2018 and the remainder in 2019.

*Marketing.* Marketing expense as percentage of revenue increased to 1.4% during the thirteen weeks ended September 29, 2019 from 1.0% during the comparable period in 2018 driven by our new national-level marketing initiatives.

*Impairment and closure costs.* Impairment and closure costs were \$7.3 million, (\$5.9 million, net of tax or \$0.35 per diluted share) during the third quarter of 2019. As a result of our impairment analysis of under-performing restaurants the Company identified five restaurants as impaired during the third quarter of 2019 and recorded a non-cash loss of \$7.1 million. Continued under-performance of these units may lead to additional pre-tax impairment charges of approximately \$2.0 million to \$4.0 million. The company also recorded closure costs of \$0.2 million relating to two restaurants closed during the first quarter of 2019. During the third quarter of 2018, the Company recorded a non-cash loss of \$12.3 million (\$11.0 million, net of tax or \$0.64 per diluted share) related to an impairment of assets at six restaurants.

*Depreciation and Amortization.* Depreciation and amortization costs increased \$0.2 million to \$5.3 million during the thirteen weeks ended September 29, 2019 from \$5.1 million during the comparable period in 2018, primarily as the result of an increase in equipment and leasehold improvement costs associated with new restaurants.

*Income Tax Expense.* Income tax was a benefit of \$1.4 million during the thirteen weeks ended September 29, 2019 compared to a benefit of \$1.6 million during the comparable period in 2018. The tax benefit was primarily due to the tax impact of the non-cash loss on asset impairment and closure costs of \$7.3 million in the third quarter of 2019 and the non-cash loss on asset impairment of \$12.3 million in the third quarter of 2018. Excluding the impact of these non-recurring items, the Company's effective tax rate during the thirteen weeks ended September 29, 2019 was a tax benefit of 1.2% compared to a benefit of 6.7% for the same period in 2018.

*Net Loss.* As a result of the foregoing, net loss was \$1.8 million during the thirteen weeks ended September 29, 2019 as compared to net loss of \$7.5 million during the comparable period in 2018.

### **Thirty-Nine Weeks Ended September 29, 2019 Compared to Thirty-Nine Weeks Ended September 30, 2018**

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

	Thirty-Nine Weeks Ended					
	September 29, 2019	% of Revenue	September 30, 2018	% of Revenue	\$ Change	% Change
Revenue	\$ 324,325	100.0 %	\$ 301,366	100.0 %	\$ 22,959	7.6 %
Costs and expenses:						
Cost of sales	83,562	25.8	76,430	25.4	7,132	9.3
Labor	114,323	35.2	108,274	35.9	6,049	5.6
Operating	46,583	14.4	43,072	14.3	3,511	8.2
Occupancy	24,340	7.5	22,297	7.4	2,043	9.2
General and administrative	18,010	5.6	15,517	5.1	2,493	16.1
Marketing	4,487	1.4	3,185	1.1	1,302	40.9
Restaurant pre-opening	2,357	0.7	3,725	1.2	(1,368)	(36.7)
Legal settlement	775	0.2	—	—	775	*
Impairment and closure costs	7,888	2.4	12,336	4.1	(4,448)	(36.1)
Depreciation and amortization	15,485	4.8	14,705	5.0	780	5.3
Total costs and expenses	317,810	98.0	299,541	99.5	18,269	6.1
Income from operations	6,515	2.0	1,825	0.5	4,690	257.0
Interest expense	90	—	59	—	31	52.5
Income before income taxes	6,425	2.0	1,766	0.5	4,659	263.8
Income tax expense	(1,220)	(0.4)	(363)	(0.1)	(857)	236.1
Net income	\$ 7,645	2.4 %	\$ 2,129	0.6 %	\$ 5,516	259.1 %

\* Not meaningful

*Revenue.* Revenue increased \$23.0 million, or 7.6%, to \$324.3 million for the thirty-nine weeks ended September 29, 2019 from \$301.4 million for the comparable period in 2018. This increase was primarily driven by \$22.7 million in incremental revenue from an additional 279 operating weeks provided by new restaurants during the thirty-nine weeks ended September 29, 2019 as

well as an increase in comparable restaurant sales. These increases were partially offset by non-comparable restaurants that are not included in the incremental revenue discussed above. Revenue for non-comparable restaurants is historically lower as the stores transition out of the 'honeymoon' period that follows a restaurant's initial opening.

Comparable restaurant sales increased 2.5% for the thirty-nine weeks ended September 29, 2019 compared to the thirty-nine weeks ended September 30, 2018. The increase in comparable restaurant sales was primarily driven by a 3.7% increase in average check, partially offset by a 1.2% decrease in weekly customers. We estimate comparable restaurant sales were negatively impacted by approximately 30 basis points due to unfavorable weather conditions, partially offset by the timing of New Year's Eve. Our bar sales were approximately 18.4% of total sales during the thirty-nine weeks ended September 29, 2019 compared to 18.7% during the comparable period in 2018.

*Cost of Sales.* Cost of sales as a percentage of revenue increased to 25.8% during the thirty-nine weeks ended September 29, 2019 from 25.4% during the comparable period in 2018. This increase is primarily due to increases in the cost of beef of approximately 40 basis points, produce of approximately 40 basis points, partially offset by decreases in dairy costs of approximately 10 basis points, grocery costs of approximately 10 basis points, chicken costs of approximately 10 basis points and bar costs of approximately 10 basis points.

*Labor Costs.* Labor costs as a percentage of revenue decreased to 35.2% during the thirty-nine weeks ended September 29, 2019 from 35.9% during the comparable period in 2018 due to leverage on higher sales, increased labor efficiency at new store openings and lower training expense for our new managers, partially offset by hourly labor rate inflation on comparable stores of approximately 3.3%.

*Operating Costs.* Operating costs as a percentage of revenue increased to 14.4% during the thirty-nine weeks ended September 29, 2019 from 14.3% during the comparable period in 2018, primarily due to higher insurance costs of approximately 10 basis points, higher restaurant repair and maintenance costs of approximately 10 basis points, higher credit card and delivery service charges of approximately 10 basis points, partially offset by favorable pricing on restaurant supplies of approximately 10 basis points as a result of a transition to one national distributor in the second half of fiscal year 2018 and increased leverage of operating costs on higher sales.

*Occupancy Costs.* Occupancy costs as a percentage of revenue increased to 7.5% during the thirty-nine weeks ended September 29, 2019 from 7.4% during the comparable period in 2018, primarily as a result of higher rental expense at certain newly opened restaurants in larger markets and higher property taxes.

*General and Administrative Expenses.* General and administrative expenses increased to \$18.0 million for the thirty-nine weeks ended September 29, 2019 from \$15.5 million during the comparable period in 2018. This increase was primarily driven by \$2.2 million increase in performance based bonuses, management salaries and equity compensation, and a \$0.3 million increase in professional and public company fees.

*Marketing.* Marketing expense as percentage of revenue increased to 1.4% during the thirty-nine weeks ended September 29, 2019 from 1.1% during the comparable period in 2018 driven by our new national-level marketing initiatives.

*Restaurant Pre-opening Costs.* Restaurant pre-opening costs decreased to \$2.4 million during the thirty-nine weeks ended September 29, 2019 compared to \$3.7 million during the same period in 2018. This decrease is primarily driven by a reduced development pipeline and timing of new restaurant openings in fiscal year 2019 as compared to the same period in 2018. During the thirty-nine weeks ended September 29, 2019 we incurred pre-opening costs for eight new restaurants, of which three will open in the fourth quarter of 2019 or later. During the comparable period in 2018, we incurred pre-opening costs for eleven new restaurants, of which four opened in the fourth quarter of 2018 or later.

*Legal settlement.* During the thirty-nine weeks ended September 29, 2019, we recorded \$0.8 million (\$0.6 million, net of tax or \$0.04 per diluted share) related to a pending legal settlement.

*Impairment and closure costs.* During the thirty-nine weeks ended September 29, 2019, the Company recorded impairment and closure costs of \$7.9 million (\$6.3 million, net of tax or \$0.37 per diluted share). As a result of our impairment analysis of under-performing restaurants the Company identified five restaurants as impaired during the third quarter of 2019 and recorded a non-cash loss of \$7.1 million. Continued under-performance of these units may lead to additional pre-tax impairment charges of approximately \$2.0 million to \$4.0 million. The Company also recorded closure costs of \$0.8 million relating to two restaurants closed during the first quarter of 2019. During the thirty-nine weeks ended September 30, 2018, the Company incurred a non-cash loss of \$12.3 million (\$11.0 million, net of tax or \$0.64 per diluted share) related to an impairment of assets at six restaurants.

*Depreciation and Amortization.* Depreciation and amortization costs increased \$0.8 million to \$15.5 million during the thirty-nine weeks ended September 29, 2019 from \$14.7 million during the comparable period in 2018, primarily as the result of an increase in equipment and leasehold improvement costs associated with new restaurants.

*Income Tax Expense.* Income tax was a benefit of \$1.2 million during the thirty-nine weeks ended September 29, 2019 compared to a benefit of \$0.4 million during the comparable period in 2018. The tax benefit was primarily due to the tax impact of non-cash

loss on asset impairment and closure costs of \$7.9 million in the third quarter of 2019 and non-cash loss on asset impairment of \$12.3 million in the third quarter of 2018. Excluding the impact of these non-recurring items, the Company's effective tax rate the thirty-nine weeks ended September 29, 2019 was a tax expense of 2.7% compared to 6.9% for the same period in 2018. The decrease in the effective tax rate is primarily related to an increase in employee tax credits in proportion to our taxable income.

*Net Income.* As a result of the foregoing, net income was \$7.6 million during the thirty-nine weeks ended September 29, 2019 as compared to \$2.1 million during the comparable period in 2018.

### Liquidity

Our principal sources of cash are net cash provided by operating activities, which includes tenant improvement allowances from our landlords, and borrowings, if any, under our \$25.0 million Revolving Credit Facility. Our need for capital resources is driven by our restaurant expansion plans, ongoing maintenance of our existing restaurants, investment in our corporate and information technology infrastructure, obligations under our operating leases and interest payments on our debt, if any. Based on our current growth plans, we believe our expected cash flows from operations, expected tenant improvement allowances and available borrowings under our Revolving Credit Facility will be sufficient to finance our planned capital expenditures and other operating activities for at least the next twelve months.

Consistent with many other restaurant and retail store operations, we typically use operating lease arrangements for our restaurants. From time to time, we may also purchase the underlying land lot for development. We believe that our operating lease arrangements provide appropriate leverage of our capital structure in a financially efficient manner. We have also entered into operating leases with certain related parties with respect to six of our restaurants and our corporate headquarters. Effective December 31, 2018, the first day of fiscal year 2019, our existing lease obligations are reflected in our consolidated balance sheets as operating lease assets and lease liabilities in accordance with Accounting Standards Update ("ASU") 2016-02, "Leases (Topic 842)". See Note 2, *Updates to Significant Accounting Policies* and Note 10, *Leases*, in the notes to our unaudited condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q for more information.

As of September 29, 2019, we had a cash and cash equivalents balance of \$10.5 million that we expect to utilize, along with cash flows from operations, to provide capital to support our restaurant expansion plans, ongoing maintenance of our existing restaurants, investment in infrastructure and to repurchase additional shares of our common stock subject to market conditions. Repurchases of the Company's outstanding common stock will be made in accordance with applicable laws and may be made at management's discretion from time to time in the open market, through privately negotiated transactions or otherwise, including pursuant to Rule 10b5-1 trading plans. There is no guarantee as to the exact number of shares to be repurchased by the Company. The timing and extent of repurchases will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, and repurchases may be discontinued at any time. As of September 29, 2019, we had \$18.6 million remaining to be repurchased under this plan through December 31, 2019. Subsequent to the end of the third quarter, the Company's Board of Directors authorized a new share repurchase program under which the Company may, at its discretion, repurchase up to \$30 million of its common shares outstanding. This repurchase program becomes effective on January 1, 2020, after the expiration of the previous share repurchase authorization, and expires on December 31, 2022. Repurchases of the Company's outstanding common stock will be made in accordance with applicable securities 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.

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

### Cash Flows for Thirty-Nine Weeks Ended September 29, 2019 and September 30, 2018

The following table summarizes the statement of cash flows for the thirty-nine weeks ended September 29, 2019 and September 30, 2018 (in thousands):

	Thirty-Nine Weeks Ended	
	September 29, 2019	September 30, 2018
Net cash provided by operating activities	\$ 32,629	\$ 38,849
Net cash used in investing activities	(21,916)	(34,872)
Net cash used in financing activities	(8,436)	(1,949)
Net increase in cash and cash equivalents	2,277	2,028
Cash and cash equivalents at beginning of year	8,199	8,785
Cash and cash equivalents at end of period	\$ 10,476	\$ 10,813

*Operating Activities.* Net cash provided by operating activities decreased \$6.2 million to \$32.6 million for the thirty-nine weeks ended September 29, 2019 from \$38.8 million during the comparable period in 2018. Our business is almost exclusively a cash

business. Almost all of our receipts come in the form of cash and cash equivalents and a large majority of our expenditures are paid within a 30 day period. The decrease in net cash provided by operating activities was primarily due to a \$6.0 million decrease in lease incentive receivables and deferred lease incentives mainly driven by our development schedule as well as a planned reduction in contracted tenant allowances on new leases, a \$2.6 million decrease in prepaid expenses driven by timing of payments, and a \$1.6 million decrease in deferred income taxes. This total decrease of \$10.2 million was partially offset by a \$3.8 million increase in accrued liabilities mainly driven by higher bonus, sales tax and property tax accruals in the third quarter of 2019 as well as timing of other payments.

*Investing Activities.* Net cash used in investing activities decreased \$13.0 million to \$21.9 million for the thirty-nine weeks ended September 29, 2019 from \$34.9 million during the comparable period in 2018. The decrease was primarily due to a reduced development pipeline as well as the timing of our construction payments associated with new restaurants as well as expenditures related to maintaining our existing restaurants and other projects during the thirty-nine weeks ended September 29, 2019 as compared to the same period last year.

*Financing Activities.* Net cash used in financing activities increased by \$6.5 million to \$8.4 million for the thirty-nine weeks ended September 29, 2019 from \$1.9 million during the comparable period in 2018. The increase was primarily due to a \$6.2 million increase in the shares of our common stock repurchased in the open market and a \$0.2 million decrease in the proceeds from the exercise of stock options during the thirty-nine weeks ended September 29, 2019.

As of September 29, 2019, we leased six of our restaurant locations and our corporate offices from entities owned by our founders and one former executive officer. We had no other financing transactions, arrangements or other relationships with any unconsolidated affiliates or related parties. Additionally, we had no financing arrangements involving synthetic leases or trading activities involving commodity contracts.

## **Capital Resources**

### ***Long-Term and Short-Term Capital Requirements***

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

### **Contractual Obligations**

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

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

As of September 29, 2019, we are not involved in any variable interest entities transactions and do not otherwise have any off-balance sheet arrangements.

### **Significant Accounting Policies**

Except as set forth in Note 2, *Updates to Significant Accounting Policies* in the notes to our unaudited condensed consolidated financial statements, there have been no material changes to the significant accounting policies from what was previously disclosed in our Annual Report filed with the SEC.

### **Recent Accounting Pronouncements**

For information regarding new accounting pronouncements, see Note 3, *Recent Accounting Pronouncements* in the notes to our unaudited condensed consolidated financial statements.

### **Cautionary Statement Concerning Forward-Looking Statements**

Certain statements in this quarterly report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, among others, statements regarding our growth strategy. Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

- the success of our existing and new restaurants;
- our ability to identify appropriate sites and develop and expand our operations;
- our ability to manage our growth effectively;

## [Table of Contents](#)

- we operate most of our restaurants under long-term leases which we would be obligated to perform even if we closed our restaurants;
- we may not be able to renew leases;
- changes in economic conditions;
- damage to our reputation or lack of acceptance of our brand in existing or new markets;
- our expansion into markets that we are unfamiliar with;
- economic and other trends and developments, including adverse weather conditions, in the local or regional areas in which our restaurants are located and specifically in Texas where a large percentage of our restaurants are located;
- the impact of negative economic factors, including the availability of credit, on our landlords and surrounding tenants;
- changes in food availability and costs;
- labor shortages and increases in our labor costs, including as a result of changes in government regulation, such as the adoption of federal health care legislation;
- food safety and food borne illness concerns;
- increased competition in the restaurant industry and the segments in which we compete;
- the impact of legislation and regulations regarding nutritional information, and new information or attitudes regarding diet and health or adverse opinions about the health of consuming our menu offerings;
- the impact of federal, state and local beer, liquor and food service regulations;
- the impact of litigation;
- the success of our marketing programs;
- the impact of new restaurant openings, including the effect on our existing restaurants when opening new restaurants in the same markets;
- the loss of key members of our management team;
- strain on our infrastructure and resources caused by our growth;
- the inadequacy of our insurance coverage and fluctuating insurance requirements and costs;
- the impact of our indebtedness on our ability to invest in the ongoing needs of our business;
- our ability to obtain debt or other financing on favorable terms or at all;
- the impact of impairment charges and closure costs in the future;
- the impact of security breaches of confidential customer information in connection with our electronic processing of credit and debit card transactions;
- inadequate protection of our intellectual property;
- the failure of our information technology system or the breach of our network security;
- a major natural or man-made disaster;
- our increased costs and obligations as a result of being a public company;
- the failure of our internal control over financial reporting;
- the impact of federal, state and local tax laws;
- volatility in the price of our common stock;
- the timing and amount of repurchases of our common stock, if any, will depend upon several factors, including market and business conditions, regulatory requirements and other corporate considerations, changes to the Company's expected liquidity position and the possibility that the repurchase program may be suspended or discontinued;

- the impact of future sales of our common stock and any additional capital raised by us through the sale of our common stock or grants of additional equity-based compensation;
- the impact of a downgrade of our shares by securities analysts or industry analysts, the publication of negative research or reports, or lack of publication of reports about our business;



- the effect of anti-takeover provisions in our charter documents and under Delaware law;
- the effect of our decision to not pay dividends for the foreseeable future;
- the effect of changes in accounting principles applicable to us;
- our ability to raise capital in the future; and
- other risks and uncertainties described from time to time in the Company's Annual Report and other filings with the Securities and Exchange Commission.

Although we believe that the expectations reflected in the forward-looking statements are reasonable based on our current knowledge of our business and operations, we cannot guarantee future results, levels of activity, performance or achievements. The foregoing factors should not be construed as exhaustive and should be read together with other cautionary statements included in this report and in our Annual Report. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Any forward-looking statements you read in this report reflect our views as of the date of this report with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. You should not place undue reliance on these forward-looking statements and you should carefully consider all of the factors identified in this report that could cause actual results to differ. We assume no obligation to update these forward-looking statements, except as required by law.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

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

### **Item 4. Controls and Procedures**

#### **Evaluation of Disclosure Controls and Procedures**

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

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

#### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during our quarter ended September 29, 2019 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **Part II—Other Information**

### **Item 1. Legal Proceedings**

For information regarding legal proceedings, see Note 9, *Commitments and Contingencies* in the notes to our unaudited condensed consolidated financial statements.

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

There have been no material changes from the risk factors previously disclosed in our Annual Report filed with the SEC.

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

The table below provides information with respect to our purchase of shares of our common stock during the thirteen weeks ended September 29, 2019:

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid Per Share</b>	<b>Total number of shares purchased as part of publicly announced plans or programs</b>	<b>Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) <sup>(1)</sup></b>
July 1, 2019 through July 28, 2019	95,294	\$ 22.04	95,294	\$ 18.6
July 29, 2019 through August 25, 2019	—	—	—	18.6
August 26, 2019 through September 29, 2019	—	—	—	18.6
Total	95,294	\$ 22.04	95,294	

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

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

<b>Exhibit No.</b>	<b>Description of Exhibit</b>
<a href="#">31.1</a>	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">31.2</a>	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
<a href="#">32.1</a>	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**SIGNATURES**

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

Date: November 8, 2019

CHUY'S HOLDINGS, INC.

By: /s/ Steven J. Hislop

Name: Steven J. Hislop

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

By: /s/ Jon W. Howie

Name: Jon W. Howie

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

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

I, Steven J. Hislop, certify that:

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

Date: November 8, 2019

/s/ Steven J. Hislop

---

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

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

I, Jon W. Howie, certify that:

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

Date: November 8, 2019

/s/ Jon W. Howie

\_\_\_\_\_  
Jon W. Howie

Vice President and Chief Financial Officer  
(Principal Financial Officer)

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

In connection with the Quarterly Report on Form 10-Q of Chuy's Holdings, Inc., a Delaware Corporation (the "Company"), for the period ending September 29, 2019, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Steven J. Hislop, President and Chief Executive Officer of the Company, and Jon W. Howie, Vice President and Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that:

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

Date: November 8, 2019

/s/ Steven J. Hislop

---

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

/s/ Jon W. Howie

---

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