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 24, 2023

OR

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

Commission File No. 001-35603

CHUY'S HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-5717694**
(State of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

1623 Toomey Rd.
Austin, Texas 78704
(Address of Principal Executive Offices) (Zip Code)

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

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

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

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

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

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

Large accelerated filer	☐	Accelerated filer	☑	Emerging growth company	☐
Non-accelerated filer	☐	Smaller reporting company	☐		

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 20, 2023 was17,352,569.

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Part I—Financial Information

Item 1. Financial Statements

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

	September 24, 2023	December 25, 2022
Assets	(Unaudited)	
Current assets:		
Cash and cash equivalents	$ 69,863	$ 78,028
Accounts receivable	2,148	2,004
Lease incentives receivable	900	900
Inventories	1,681	2,069
Income tax receivable	117	—
Prepaid expenses and other current assets	5,821	4,817
Total current assets	80,530	87,818
Property and equipment, net	200,125	185,956
Operating lease assets	139,491	146,920
Deferred tax asset, net	3,802	4,958
Other assets and intangible assets, net	4,386	3,160
Tradename	21,900	21,900
Goodwill	24,069	24,069
Total assets	$ 474,303	$ 474,781
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 5,917	$ 8,059
Accrued liabilities	29,280	23,321
Operating lease liabilities	12,553	12,499
Income tax payable	—	479
Total current liabilities	47,750	44,358
Operating lease liabilities, less current portion	173,971	183,670
Other liabilities	3,355	2,192
Total liabilities	225,076	230,220
Contingencies		
Stockholders' equity:		
Common stock, $0.01 par value; 60,000,000 shares authorized; 17,501,620 shares issued and outstanding at September 24, 2023 and 17,998,170 shares issued and outstanding at December 25, 2022	175	180
Preferred stock, $0.01 par value; 15,000,000 shares authorized and no shares issued or outstanding at September 24, 2023 and December 25, 2022	—	—
Paid-in capital	75,227	96,586
Retained earnings	173,825	147,795
Total stockholders' equity	249,227	244,561
Total liabilities and stockholders' equity	$ 474,303	$ 474,781

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 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Revenue	$ 113,464	$ 106,682	$ 344,963	$ 318,114
Costs and expenses:				
Cost of sales	28,517	29,149	86,667	86,266
Labor	34,548	32,378	103,809	94,470
Operating	19,047	17,441	56,021	51,164
Occupancy	7,772	7,490	23,770	22,698
General and administrative	7,885	6,700	23,389	19,848
Marketing	1,609	1,541	4,852	4,568
Restaurant pre-opening	343	266	1,437	733
Impairment, closed restaurant and other costs	1,017	1,190	1,870	3,203
Depreciation	5,378	5,102	15,740	15,065
Total costs and expenses	106,116	101,257	317,555	298,015
Income from operations	7,348	5,425	27,408	20,099
Interest income, net	(945)	(331)	(2,576)	(378)
Income before income taxes	8,293	5,756	29,984	20,477
Income tax expense	1,219	767	3,954	2,099
Net income	$ 7,074	$ 4,989	$ 26,030	$ 18,378
Net income per common share:				
Basic	$ 0.40	$ 0.27	$ 1.45	$ 0.97
Diluted	$ 0.39	$ 0.27	$ 1.44	$ 0.97
Weighted-average shares outstanding:				
Basic	17,877,063	18,685,401	17,992,608	18,901,542
Diluted	17,987,525	18,761,263	18,103,825	19,010,238

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			Retained	
	Shares	Amount	Paid-in Capital	Earnings	Total
Balance, June 25, 2023	18,038,554	$ 180	$ 94,476	$ 166,751	$ 261,407
Stock-based compensation	—	—	1,062	—	1,062
Proceeds from exercise of stock options	527	—	15	—	15
Settlement of restricted stock units	1,982	—	—	—	—
Repurchase of shares of common stock	(538,907)	(5)	(20,286)	—	(20,291)
Indirect repurchase of shares for minimum tax withholdings	(536)	—	(40)	—	(40)
Net income	—	—	—	7,074	7,074
Balance, September 24, 2023	17,501,620	$ 175	$ 75,227	$ 173,825	$ 249,227
Balance, June 26, 2022	18,879,917	$ 189	$ 115,232	$ 140,329	$ 255,750
Stock-based compensation	—	—	987	—	987
Settlement of restricted stock units	1,850	—	—	—	—
Repurchase of shares of common stock	(557,576)	(6)	(12,749)	—	(12,755)
Indirect repurchase of shares for minimum tax withholdings	(544)	—	(12)	—	(12)
Net income	—	—	—	4,989	4,989
Balance, September 25, 2022	18,323,647	$ 183	$ 103,458	$ 145,318	$ 248,959

	Thirty-Nine Weeks Ended				
	Common Stock			Retained	
	Shares	Amount	Paid-in Capital	Earnings	Total
Balance, December 25, 2022	17,998,170	$ 180	$ 96,586	$ 147,795	$ 244,561
Stock-based compensation	—	—	3,160	—	3,160
Proceeds from exercise of stock options	10,157	—	291	—	291
Settlement of restricted stock units	159,706	2	(2)	—	—
Repurchase of shares of common stock	(622,428)	(6)	(23,246)	—	(23,252)
Indirect repurchase of shares for minimum tax withholdings	(43,985)	(1)	(1,562)	—	(1,563)
Net income	—	—	—	26,030	26,030
Balance, September 24, 2023	17,501,620	$ 175	$ 75,227	$ 173,825	$ 249,227
Balance, December 26, 2021	19,538,058	$ 195	$ 135,659	$ 126,940	$ 262,794
Stock-based compensation	—	—	3,042	—	3,042
Settlement of restricted stock units	174,596	2	(2)	—	—
Repurchase of shares of common stock	(1,334,388)	(13)	(33,794)	—	(33,807)
Indirect repurchase of shares for minimum tax withholdings	(54,619)	(1)	(1,447)	—	(1,448)
Net income	—	—	—	18,378	18,378
Balance, September 25, 2022	18,323,647	$ 183	$ 103,458	$ 145,318	$ 248,959

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 24, 2023	September 25, 2022
Cash flows from operating activities:		
Net income	$ 26,030	$ 18,378
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	15,740	15,065
Amortization of operating lease assets	7,528	7,149
Amortization of loan origination costs	65	65
Impairment, closed restaurant and other costs	535	880
Stock-based compensation	2,962	2,885
Loss on disposal of property and equipment	182	204
Deferred income taxes	1,156	497
Changes in operating assets and liabilities:		
Accounts receivable	(144)	164
Income tax receivable and payable	(596)	1,136
Inventories	388	54
Prepaid expenses and other assets	(2,035)	(1,858)
Accounts payable	(3,697)	985
Accrued and other liabilities	7,122	(756)
Operating lease liabilities	(10,061)	(11,975)
Net cash provided by operating activities	45,175	32,873
Cash flows from investing activities:		
Purchase of property and equipment, net	(28,654)	(20,113)
Net cash used in investing activities	(28,654)	(20,113)
Cash flows from financing activities:		
Loan origination costs	(162)	—
Repurchase of shares of common stock	(23,252)	(33,807)
Proceeds from the exercise of stock options	291	—
Indirect repurchase of shares for minimum tax withholdings	(1,563)	(1,448)
Net cash used in financing activities	(24,686)	(35,255)
Net decrease in cash and cash equivalents	(8,165)	(22,495)
Cash and cash equivalents, beginning of period	78,028	106,621
Cash and cash equivalents, end of period	$ 69,863	$ 84,126
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment and other assets acquired by accounts payable	$ 1,555	$ 1,522
Supplemental cash flow disclosures:		
Cash paid for interest	$ 33	$ 41
Cash paid for income taxes	$ 3,407	$ 466

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 24, 2023, the Company operated 100 restaurants across 16 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 25, 2022. The accompanying condensed consolidated balance sheet as of December 25, 2022, 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.

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 2023 fiscal year consists of 53 weeks and our 2022 fiscal year consisted of 52 weeks.

2. Recent Accounting Pronouncements

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

3. Net Income Per Share

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

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

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

For the thirteen weeks ended September 24, 2023 and September 25, 2022, there were approximately44 and 91,952 shares, respectively, of common stock equivalents that were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive. For the thirty-nine weeks ended September 24, 2023 and September 25, 2022, there were approximately 171 and 65,638 shares, respectively, of common stock equivalents that were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive.

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
BASIC				
Net income	$ 7,074	$ 4,989	$ 26,030	$ 18,378
Weighted-average common shares outstanding	17,877,063	18,685,401	17,992,608	18,901,542
Basic net income per common share	$ 0.40	$ 0.27	$ 1.45	$ 0.97
DILUTED				
Net income	$ 7,074	$ 4,989	$ 26,030	$ 18,378
Weighted-average common shares outstanding	17,877,063	18,685,401	17,992,608	18,901,542
Dilutive effect of stock options and restricted stock units	110,462	75,862	111,217	108,696
Weighted-average of diluted shares	17,987,525	18,761,263	18,103,825	19,010,238
Diluted net income per common share	$ 0.39	$ 0.27	$ 1.44	$ 0.97

4. Stock-Based Compensation

The Company has outstanding awards under the 2012 Plan and the 2020 Plan. On July 30, 2020, the Company's stockholders approved the 2020 Plan, which replaced the 2012 Plan and no further awards may be granted under the 2012 plan. The termination of the 2012 Plan did not affect outstanding awards granted under the 2012 Plan. Options granted under these plans vest over five years from the date of grant and have a maximum term of ten years. As of September 24, 2023, the Company had 1,819 of stock options outstanding and exercisable with a remaining weighted average contractual term of less than one year.

Restricted stock units granted under the 2012 Plan and 2020 Plan vest over four years to five years from the date of grant. As of September 24, 2023, a total of 743,117 shares of common stock were reserved and remained available for issuance under the 2020 Plan.

Stock-based compensation expense recognized in the accompanying condensed consolidated income statements was approximately $1.0 million and $0.9 million for the thirteen weeks ended September 24, 2023 and September 25, 2022, respectively. Stock-based compensation expense recognized in the accompanying condensed consolidated income statements was approximately $3.0 million and $2.9 million for the thirty-nine weeks ended September 24, 2023 and September 25, 2022.

On July 27, 2023, the Company's stockholders approved the 2023 Employee Stock Purchase Plan ("the 2023 ESPP"). As of September 24, 2023, the Company had 500,000 shares of common stock reserved and available for issuance under the 2023 ESPP. As of September 24, 2023, there has not been any offering period or purchase period under the 2023 ESPP, and no such period will begin unless and until determined by the administrator.

A summary of stock-based compensation activity related to restricted stock units for the thirty-nine weeks ended September 24, 2023 is as follows:

	Shares	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (Year)
Outstanding at December 25, 2022	383,098	$ 27.06	
Granted	136,145	36.76	
Vested	(159,706)	24.38	
Forfeited	(4,126)	27.99	
Outstanding at September 24, 2023	355,411	$ 31.97	2.68

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

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 24, 2023, total unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately $9.1 million. This amount is expected to be recognized evenly over the remaining vesting period of the awards.

5. Long-Term Debt

Revolving Credit Facility

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

On June 30, 2023, the Company entered into Amendment No. 1 (the "Amendment") to the Credit Facility with JPMorgan Chase Bank, N.A. The Amendment replaced the London Interbank Offered Rate ("LIBOR") interest rate with an Adjusted Term Secured Overnight Financing Rate ("Adjusted Term SOFR") interest rate.

The Credit Facility contains representations and warranties, affirmative and negative covenants and events of default that the Company considers customary for an agreement of this type. The agreement requires the Company to be in compliance with a minimum fixed charge coverage ratio of no less than 1.25 to 1.00, and a maximum consolidated total lease adjusted leverage ratio of no more than 4.00 to 1.00. The Credit Facility also has certain restrictions on the payment of dividends and distributions. Under the Credit Facility, the Company may declare and make dividend payments so long as (i) no default or event of default has occurred and is continuing or would result therefrom and (ii) immediately after giving effect to any such dividend payment, on a pro forma basis, the consolidated total lease adjusted leverage ratio does not exceed 3.50 to 1.00.

Borrowings under the Credit Facility accrue interest at a per annum rate equal to, at the Company's election, either Adjusted Term SOFR plus a margin of1.5% to 2.0%, depending on the Company's consolidated total lease adjusted leverage ratio, or a base rate determined according to the highest of (a) the prime rate, (b) the federal funds rate plus 0.5% or (c) Adjusted Term SOFR plus 1.0%, plus a margin of 0.5% to 1.0%, depending on the Company's consolidated total lease adjusted leverage ratio.

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

The obligations under the Company's Credit Facility are guaranteed by certain subsidiaries of the Company and, subject to certain exceptions, secured by a continuing security interest in substantially all of the Company's assets. As of September 24, 2023, the Company had no borrowings under the Credit Facility, and was in compliance with all covenants under the Credit Facility.

Subsequent to the quarter end, on September 27, 2023, the Company entered into an Amended and Restated Credit Agreement (the "A&R Credit Facility") with JPMorgan Chase Bank, N.A. to, among other things, (1) extend the maturity date of the credit facility to September 27, 2026 from July 30, 2024, (2) revise the adjustment applicable to the Adjusted Term SOFR rate as well as the commitment fee and (3) reduce the aggregate principal commitment to $25.0 million which could be increased up to an additional $35.0 million at the Company's option if the lenders agree to increase their commitments.

6. Accrued Liabilities

The major classes of accrued liabilities at September 24, 2023 and December 25, 2022 are summarized as follows:

	September 24, 2023	December 25, 2022
Accrued compensation and related benefits	$ 12,861	$ 9,117
Other accruals	7,039	5,202
Property tax	3,857	2,820
Sales and use tax	3,043	3,007
Deferred gift card revenue	2,480	3,175
Total accrued liabilities	$ 29,280	$ 23,321

7. Stockholders' Equity

Share Repurchase Program

On October 28, 2021, the Company's Board of Directors replaced the Company's previous $30.0 million share repurchase program and approved a new share repurchase program under which the Company may repurchase up to $50.0 million of its common shares outstanding. This repurchase program became effective on October 28, 2021. The Company repurchased 557,576 shares for approximately $12.8 million during the third quarter of 2022 and 1,334,388 shares for approximately $33.8 million during the thirty-nine weeks ended September 25, 2022. As of December 25, 2022, the Company completed its previous $50.0 million repurchase program.

On October 27, 2022, the Company's Board of Directors approved a new share repurchase program under which the Company may repurchase up to $50.0 million of its common shares outstanding through December 31, 2024. The Company repurchased 538,907 shares for approximately $20.0 million during the third quarter of 2023 and 622,428 shares of its common stock for a total of approximately $23.0 million during the thirty-nine weeks ended September 24, 2023. As of September 24, 2023, the Company had $27.0 million remaining under its $50.0 million repurchase program.

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

8. Contingencies

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

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 to 15 years, most of which include renewal options totaling 10 to 15 years. The lease term is generally the minimum of the noncancelable period or the lease term including renewal options which are reasonably certain of being exercised up to a term of approximately 20 years.

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

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

Operating lease expense is recognized on a straight-line basis over the lease term. Variable lease payments that do not depend on a rate or index, escalation in the index subsequent to the initial measurement, payments associated with non-lease components such as common area maintenance, real estate taxes and insurance, and short-term lease payments (leases with a term with 12 months or less) are expensed as incurred. Certain of the Company's operating leases contain clauses that provide for contingent rent based on a percentage of sales greater than certain specified target amounts. These variable payments are expensed when the achievement of the specified target that triggers the contingent rent is considered probable. As of September 24, 2023, all of the Company's leases were operating.

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
Lease cost	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Operating lease cost	$ 6,019	$ 6,072	$ 18,060	$ 18,426
Variable lease cost	443	358	1,374	1,094
	$ 6,462	$ 6,430	$ 19,434	$ 19,520

Supplemental cash flow disclosures and other lease information:

	Thirty-Nine Weeks Ended	
	September 24, 2023	September 25, 2022
Cash paid for operating lease liabilities	$ 20,520	$ 23,377
Operating lease assets obtained in exchange for operating lease liabilities[a]	197	7,724

[a] The thirty-nine weeks ended September 24, 2023 includes a $2.7 million increase due to extending remaining lives of certain leases, partially offset by a $1.9 million decrease as a result of a purchase of an existing operating lease and a $0.6 million decrease as a result of the termination of a closed restaurant lease. The thirty-nine weeks ended September 25, 2022 includes a $7.4 million increase to operating lease assets and liabilities related to new lease commencements, a $2.8 million increase due to extending remaining lives of certain leases, partially offset by a $2.5 million decrease as a result of the termination of closed restaurant leases.

The Company recorded no deferred lease incentives during the thirty-nine weeks ended September 24, 2023 and $1.0 million of deferred lease incentives during the thirty-nine weeks ended September 25, 2022.

Supplemental balance sheet disclosures:

Operating leases	Classification	September 24, 2023	December 25, 2022
Right-of-use assets	Operating lease assets	$ 139,491	$ 146,920
Deferred rent payments	Operating lease liability	5	84
Current lease liabilities	Operating lease liability	12,548	12,415
		12,553	12,499
Deferred rent payments	Operating lease liability, less current portion	64	68
Non-current lease liabilities	Operating lease liability, less current portion	173,907	183,602
		173,971	183,670
Total lease liabilities		$ 186,524	$ 196,169
Weighted average remaining lease term (in years)		12.1	12.7
Weighted average discount rate		7.6 %	7.6%

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

Future minimum rent payments for our operating leases for the next five years as of September 24, 2023 are as follows:

Fiscal year ending:		
Remainder of 2023	$	6,502
2024		26,262
2025		26,378
2026		25,468
2027		23,419
Thereafter		176,402
Total minimum lease payments		284,431
Less: imputed interest		97,907
Present value of lease liabilities	$	186,524

As of September 24, 2023, operating lease payments exclude approximately $12.1 million of legally binding minimum lease payments for leases signed but which we have not yet taken possession.

10. Income Taxes

The following is a reconciliation of the expected federal income taxes at the statutory rates of21%:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Expected income tax expense	$ 1,742	$ 1,209	$ 6,297	$ 4,300
State tax expense, net of federal benefit	267	199	977	767
FICA tip credit	(860)	(727)	(3,191)	(3,099)
Officers' compensation	66	49	247	206
Stock compensation	(7)	33	(394)	(94)
Other	11	4	18	19
Income tax expense	$ 1,219	$ 767	$ 3,954	$ 2,099

Deferred tax assets are reduced by a valuation allowance if, based on the weight of the available evidence, it is more likely than not that some or all of the deferred taxes will not be realized. Both positive and negative evidence is considered in forming management's judgment as to whether a valuation allowance is appropriate, and more weight is given to evidence that can be objectively verified. The tax benefits relating to any reversal of the valuation allowance on the deferred tax assets would be recognized as a reduction of future income tax expense. As of September 24, 2023, the Company believes that it will realize all of its deferred tax assets. Therefore, no valuation allowance has been recorded.

The Internal Revenue Service ("IRS") audited our tax return for the fiscal year 2016. In August 2020, the IRS issued a Notice of Proposed Adjustment to the Company asserting that the tenant allowances paid to us under our operating leases should be recorded as taxable income for years 2016 and prior. The Company disagrees with this position based on the underlying facts and circumstances as well as standard industry practice. The Company estimates if the IRS's position was upheld, the Company's tax liability associated with this position could range between $0.5 million and $2.5 million. In accordance with the provisions of FASB Accounting Standards Codification Subtopic 740-10, *Accounting for Uncertainty in Income Taxes*, the Company believes that it is more likely than not that the Company's position will ultimately be sustained upon further examination, including the resolution of the IRS's appeal or litigation processes, if any. As of September 24, 2023 and September 25, 2022, the Company recognized no liability for uncertain tax positions.

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

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

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

11. Impairment, Closed Restaurant and Other Costs

The Company reviews long-lived assets, such as property and equipment, operating lease assets and intangibles, subject to amortization, for impairment when events or circumstances indicate the carrying value of the assets may not be recoverable. In determining the recoverability of the asset value, an analysis is performed at the individual restaurant level and primarily includes an assessment of historical undiscounted cash flows and other relevant factors and circumstances. The Company evaluates future cash flow projections in conjunction with qualitative factors and future operating plans and regularly reviews any restaurants with a deficient level of cash flows for the previous 24 months to determine if impairment testing is necessary.

Recoverability of assets to be held and used is measured by a comparison of the carrying value of the restaurant to its estimated future undiscounted cash flows. If the estimated undiscounted future cash flows are less than the carrying value, we determine if there is an impairment loss by comparing the carrying value of the restaurant to its estimated fair value. Based on this analysis, if the carrying value of the restaurant exceeds its estimated fair value, an impairment charge is recognized by the amount by which the carrying value exceeds the fair value.

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

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

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Property and equipment impairment	51	673	98	673
Total impairment charge	51	673	98	673
Closed restaurant costs	596	796	1,402	2,832
Loss (gain) on lease termination	370	(279)	370	(302)
Impairment, closed restaurant and other costs	$ 1,017	$ 1,190	$ 1,870	$ 3,203

Closed restaurant costs represent on-going expenses to maintain the closed restaurants, such as rent expense, utility and insurance among other costs required to maintain the remaining closed locations

The Company terminated one and three of its closed restaurant lease agreements during the thirteen weeks ended September 24, 2023 and September 25, 2022, respectively.

The Company terminated and/or subleased one and seven of its closed restaurant lease agreements during the thirty-nine weeks ended September 24, 2023 and September 25, 2022, respectively.

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

Unless otherwise specified, or the context otherwise requires, the references in this report to "Chuy's," "our Company," "the Company," "us," "we" and "our" refer to Chuy's Holdings, Inc. together with its subsidiaries.

The following discussion summarizes the significant factors affecting the consolidated operating results, financial condition, liquidity and cash flows of our Company as of and for the periods presented below. The following discussion and analysis should be read in conjunction with our Annual Report on Form 10-K for the year ended December 25, 2022 (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 24, 2023, we operated 100 restaurants across 16 states.

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

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

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 restaurant sales reflect changes in customer count trends as well as changes in average check. Our comparable restaurant base consisted of 94 restaurants at September 24, 2023.
- *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.
- *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 24, 2023	September 25, 2022	September 24, 2023	September 25, 2022
Total open restaurants (at end of period)	100	97	100	97
Total comparable restaurants (at end of period)	94	92	94	92
Average unit volumes (in thousands)	$ 1,124	$ 1,101	$ 3,470	$ 3,317
Change in comparable restaurant sales[(1)]	2.0 %	2.6 %	4.3 %	4.9 %
Average check	$ 19.07	$ 18.37	$ 19.04	$ 18.08

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

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 2023 fiscal year consists of 53 weeks and our 2022 fiscal year consisted of 52 weeks.

Key Financial Definitions

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

Cost of sales. Cost of sales consists 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 and national restaurant marketing programs, community service and sponsorship activities, our menus and other promotional activities.

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

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

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

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

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 24, 2023 Compared to Thirteen Weeks Ended September 25, 2022

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

	Thirteen Weeks Ended					
	September 24, 2023	% of Revenue	September 25, 2022	% of Revenue	$ Change	% Change
Revenue	$ 113,464	100.0 %	$ 106,682	100.0 %	$ 6,782	6.4 %
Costs and expenses:						
Cost of sales	28,517	25.1	29,149	27.3	(632)	(2.2)
Labor	34,548	30.4	32,378	30.4	2,170	6.7
Operating	19,047	16.8	17,441	16.3	1,606	9.2
Occupancy	7,772	6.8	7,490	7.0	282	3.8
General and administrative	7,885	6.9	6,700	6.3	1,185	17.7
Marketing	1,609	1.5	1,541	1.5	68	4.4
Restaurant pre-opening	343	0.3	266	0.2	77	28.9
Impairment, closed restaurant and other costs	1,017	0.9	1,190	1.1	(173)	(14.5)
Depreciation	5,378	4.8	5,102	4.8	276	5.4
Total costs and expenses	106,116	93.5	101,257	94.9	4,859	4.8
Income from operations	7,348	6.5	5,425	5.1	1,923	35.4
Interest income, net	(945)	(0.8)	(331)	(0.3)	(614)	185.5
Income before income taxes	8,293	7.3	5,756	5.4	2,537	44.1
Income tax expense	1,219	1.1	767	0.7	452	58.9
Net income	$ 7,074	6.2 %	$ 4,989	4.7 %	$ 2,085	41.8 %

Revenue. Revenue increased $6.8 million, or 6.4%, to $113.5 million for the thirteen weeks ended September 24, 2023 from $106.7 million for the comparable period in 2022. The increase was primarily related to an increase in our comparable restaurant sales as well as incremental revenue from an additional 65 operating weeks provided by new restaurants opened during and subsequent to the third quarter of 2022. For the third quarter of 2023, off-premise sales were approximately 28% of total revenue compared to approximately 26% during the same period in fiscal 2022.

Comparable restaurant sales increased 2.0% for the third quarter of 2023 compared to the same period last year primarily driven by a 3.8% increase in average check, partially offset by a 1.8% decrease in average weekly customer.

Cost of sales. Cost of sales as a percentage of revenue decreased to 25.1% during the thirteen weeks ended September 24, 2023 compared to 27.3% during the comparable period in 2022 primarily driven by overall commodity deflation of approximately

5% during the quarter as compared to the same period a year ago as well as leverage on a menu price increase taken subsequent to the third quarter of 2022.

Operating costs. Operating costs as a percentage of revenue increased to 16.8% during the thirteen weeks ended September 24, 2023 from 16.3% during the same period in 2022 primarily driven by a 40 basis points ("bps") increase in delivery service charges as a result of increased delivery sales, a 20 bps increase in restaurant repair and maintenance costs and a 10 bps increase in insurance premiums, partially offset by a 20 bps decrease in utility costs as compared to the third quarter of 2022.

General and administrative expenses. General and administrative expenses increased to $7.9 million for the thirteen weeks ended September 24, 2023 as compared to $6.7 million for the same period in 2022. The increase was primarily driven by higher performance-based bonuses and an increase in management salaries. As a percentage of revenues, general and administrative expenses increased to 6.9% in the third quarter of 2023 from 6.3% in the third quarter of 2022.

Impairment, closed restaurant and other costs. Impairment, closed restaurant and other costs decreased to $1.0 million during the thirteen weeks ended September 24, 2023 from $1.2 million during the comparable period in 2022. The decrease was primarily related to a reduction in rent paid on previously closed restaurants. Closed restaurant costs include rent expense, utilities, insurance and other costs required to maintain the remaining closed locations.

Depreciation. Depreciation expense increased to $5.4 million during the thirteen weeks ended September 24, 2023 from $5.1 million recorded during the comparable period in 2022 primarily due to an increase in depreciation associated with our new restaurants.

Interest income, net. Interest income, net increased to $0.9 million during the thirteen weeks ended September 24, 2023 as compared to $0.3 million for the same period in 2022. The increase was mainly a result of a higher rate of return on the excess cash invested in money market funds.

Income tax expense. Income tax expense increased to $1.2 million during the thirteen weeks ended September 24, 2023 as compared to $0.8 million during the comparable period in 2022. The effective income tax rate for the quarter was 14.7% as compared to 13.3% in the same period last year. The increase in the effective tax rate was mainly attributed to a decrease in the proportion of employee tax credits to estimated annual income.

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

Net income. As a result of the foregoing, net income was $7.1 million during the thirteen weeks ended September 24, 2023 as compared to $5.0 million during the comparable period in 2022.

Thirty-Nine Weeks Ended September 24, 2023 Compared to Thirty-Nine Weeks Ended September 25, 2022

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

	Thirty-Nine Weeks Ended					
	September 24, 2023	% of Revenue	September 25, 2022	% of Revenue	$ Change	% Change
Revenue	$ 344,963	100.0 %	$ 318,114	100.0 %	$ 26,849	8.4 %
Costs and expenses:						
Cost of sales	86,667	25.1	86,266	27.1	401	0.5
Labor	103,809	30.1	94,470	29.7	9,339	9.9
Operating	56,021	16.2	51,164	16.1	4,857	9.5
Occupancy	23,770	6.9	22,698	7.1	1,072	4.7
General and administrative	23,389	6.8	19,848	6.2	3,541	17.8
Marketing	4,852	1.5	4,568	1.5	284	6.2
Restaurant pre-opening	1,437	0.4	733	0.2	704	96.0
Impairment, closed restaurant and other costs	1,870	0.5	3,203	1.0	(1,333)	(41.6)
Depreciation	15,740	4.6	15,065	4.8	675	4.5
Total costs and expenses	317,555	92.1	298,015	93.7	19,540	6.6
Income from operations	27,408	7.9	20,099	6.3	7,309	36.4
Interest income, net	(2,576)	(0.8)	(378)	(0.3)	(2,198)	581.5
Income before income taxes	29,984	8.7	20,477	6.4	9,507	46.4
Income tax expense	3,954	1.2	2,099	0.6 %	1,855	88.4
Net income	$ 26,030	7.5 %	$ 18,378	5.8 %	$ 7,652	41.6 %

Revenue. Revenue increased $26.8 million, or 8.4%, to $345.0 million for the thirty-nine weeks ended September 24, 2023 from $318.1 million for the comparable period in 2022. The increase was primarily related to an increase in our comparable restaurant sales as well as incremental revenue from an additional 161 operating weeks provided by new restaurants opened during and subsequent to the third quarter of 2022. For the thirty-nine weeks ended September 24, 2023, off-premise sales were approximately 28% of total revenue compared to approximately 27% during the same period in fiscal 2022.

Comparable restaurant sales increased 4.3% for the thirty-nine weeks ended September 24, 2023 compared to the same period last year primarily driven by a 5.2% increase in average check, partially offset by a 0.9% decrease in average weekly customer.

Cost of sales. Cost of sales as a percentage of revenue decreased to 25.1% during the thirty-nine weeks ended September 24, 2023 compared to 27.1% during the comparable period in 2022 primarily driven by leverage on menu price increases taken subsequent to the third quarter of last year, as well as overall commodity deflation of approximately 2.0% for the thirty-nine weeks ended September 24, 2023.

Labor costs. Labor costs as a percentage of revenue increased to 30.1% during the thirty-nine weeks ended September 24, 2023 from 29.7% during the comparable period in 2022 largely as a result of hourly labor rate inflation of approximately 5% at comparable restaurants as well as an incremental improvement in our hourly staffing levels as compared to last year. This increase was partially offset by menu price increases taken subsequent to the third quarter of 2022.

Operating costs. Operating costs as a percentage of revenue increased to 16.2% during the thirty-nine weeks ended September 24, 2023 from 16.1% during the same period in 2022 primarily driven by a 30 bps increase in delivery service charges as a result of increased delivery sales and a 10 bps increase in restaurant repair and maintenance costs, partially offset by a 10 bps decrease in to-go supplies and a 20 bps decrease due to sales leverage on utility and insurance costs as compared to the same period last year.

General and administrative expenses. General and administrative expenses increased to $23.4 million for the thirty-nine weeks ended September 24, 2023 as compared to $19.8 million for the same period in 2022. The increase was primarily driven by higher performance-based bonuses and an increase in management salaries. As a percentage of revenues, general and administrative expenses increased to 6.8% in the thirty-nine weeks ended September 24, 2023 from 6.2% in the thirty-nine weeks ended June 26, 2022.

Restaurant pre-opening costs. Restaurant pre-opening costs increased to $1.4 million for the thirty-nine weeks ended September 24, 2023 as compared to $0.7 million for the same period in 2022 primarily due to an increase in restaurant development and timing of new store openings.

Impairment, closed restaurant and other costs. Impairment, closed restaurant and other costs decreased to $1.9 million during the thirty-nine weeks ended September 24, 2023 from $3.2 million during the comparable period in 2022. The decrease was primarily related to a reduction in rent paid on previously closed restaurants. Closed restaurant costs include rent expense, utilities, insurance and other costs required to maintain the remaining closed locations.

Depreciation. Depreciation expense increased to $15.7 million during the thirty-nine weeks ended September 24, 2023 from $15.1 million recorded during the comparable period in 2022 primarily due to an increase in depreciation associated with our new restaurants.

Interest income, net. Interest income, net increased to $2.6 million for the thirty-nine weeks ended September 24, 2023 as compared to $0.4 million for the same period in 2022. The increase was mainly a result of a higher rate of return on the excess cash invested in money market funds.

Income tax expense. We recorded an income tax expense of $4.0 million for the thirty-nine weeks ended September 24, 2023 as compared to $2.1 million during the comparable period in 2022. The effective income tax rate for fiscal 2023 was 13.2% as compared to 10.3% in the same period last year. The increase in the effective tax rate was mainly attributed to a decrease in the proportion of employee tax credits to estimated annual income.

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

Net income. As a result of the foregoing, net income was $26.0 million during the thirty-nine weeks ended September 24, 2023 as compared to $18.4 million during the comparable period in 2022.

Liquidity

Our principal sources of cash are cash and cash equivalents, net cash provided by operating activities, which includes tenant improvement allowances from our landlords, and borrowings, if any, under our revolving credit facility as further discussed in Note 5, *Long-Term Debt*. Consistent with many other restaurant and retail store operations, we typically use operating lease arrangements for our restaurants. From time to time, we may also purchase the underlying land for development. We believe that our operating lease arrangements provide appropriate leverage of our capital structure in a financially efficient manner. We may also from time to time sell equity or engage in other capital markets transactions.

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

The Company repurchased 557,576 shares for approximately $12.8 million during the third quarter of 2022 and 1,334,388 shares for approximately $33.8 million during the thirty-nine weeks ended September 25, 2022. As of December 25, 2022, the Company completed its previous $50.0 million repurchase program.

On October 27, 2022, the Company's Board of Directors approved a new share repurchase program under which the Company may repurchase up to $50.0 million of its common shares outstanding through December 31, 2024. The Company repurchased 538,907 shares for approximately $20.0 million during the third quarter of 2023 and 622,428 shares of its common stock for a total of approximately $23.0 million during the thirty-nine weeks ended September 24, 2023. As of September 24, 2023, the Company had $27.0 million remaining under its $50.0 million repurchase program.

Our liquidity may be adversely affected by a number of factors, including a decrease in customer traffic or average check per customer due to changes in economic conditions, as described in Item 1A. "Risk Factors" of our Annual Report.

As of September 24, 2023, the Company had a strong financial position with $69.9 million in cash and cash equivalents, no debt and $35.0 million of availability under its revolving credit facility.

Cash Flows for Thirty-Nine Weeks Ended September 24, 2023 and September 25, 2022

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

	Thirty-Nine Weeks Ended	
	September 24, 2023	September 25, 2022
Net cash provided by operating activities	$ 45,175	$ 32,873
Net cash used in investing activities	(28,654)	(20,113)
Net cash used in financing activities	(24,686)	(35,255)
Net decrease in cash and cash equivalents	(8,165)	(22,495)
Cash and cash equivalents at beginning of year	78,028	106,621
Cash and cash equivalents at end of period	$ 69,863	$ 84,126

Operating Activities. Net cash provided by operating activities increased $12.3 million to $45.2 million for the thirty-nine weeks ended September 24, 2023 from $32.9 million during the comparable period in 2022. 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 increase in net cash provided by operating activities was mainly attributable to a $7.7 million increase in net income and a $7.9 million increase in accrued and other liabilities largely driven by a lower performance-based bonus pay-out in 2023 as compared to the comparable period last year as well as an increase in accrued wages due to timing of our hourly payroll. This overall increase of $15.6 million is partially offset by a $4.7 million increase in payments on accounts payable mainly driven by timing as compared to last year.

Investing Activities. Net cash used in investing activities increased $8.5 million to $28.7 million for the thirty-nine weeks ended September 24, 2023 from $20.1 million during the comparable period in 2022, mainly driven by an increase and timing of our new restaurant construction as compared to the same period last year.

Financing Activities. Net cash used in financing activities decreased $10.6 million to $24.7 million for the thirty-nine weeks ended September 24, 2023 from $35.3 million during the comparable period in 2022 primarily due to an $10.6 million decrease in the repurchases of shares of common stock.

As of September 24, 2023, we had no other financing transactions, arrangements or other relationships with any unconsolidated affiliates or related parties. Additionally, we had no financing arrangements involving synthetic leases or trading activities involving commodity contracts.

Capital Resources

Long-Term and Short-Term Capital Requirements

There have been no material changes to our long-term or short-term capital requirements from what was previously disclosed in our Annual Report filed with the SEC, except as disclosed in Note 5, *Long-Term Debt.*

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 24, 2023, we are not involved in any variable interest entities transactions and do not otherwise have any off-balance sheet arrangements.

Critical Accounting Policies and Estimates

There have been no material changes to the critical accounting policies and estimates from what was previously disclosed in our Annual Report filed with the SEC.

Recent Accounting Pronouncements

For information regarding new accounting pronouncements, see Note 2, *Recent Accounting Pronouncements* in the notes to our unaudited condensed consolidated financial statements.

Cautionary Statement Concerning Forward-Looking Statements

Certain statements in this quarterly report on Form 10-Q that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements reflect the current views of our senior management with respect to future events and our financial performance. These statements include forward-looking statements

with respect to our business and industry in general. Statements that include the words "expect," "intend," "plan," "believe," "project," "forecast," "estimate," "may," "should," "anticipate" and similar statements of a future or forward looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise. Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. We believe that these factors include, but are not limited to, the following:

- the impact of negative economic factors, including inflation and the availability of credit;
- the success of our existing and new restaurants;
- our ability to identify appropriate sites and develop and expand our operations;
- our ability to manage our growth effectively and the resulting changes to pre-opening costs;
- we operate most of our restaurants under long-term leases which we may not be able to renew and would be obligated to perform even if we closed our restaurants;
- changes in economic conditions and consumer buying patterns;
- damage to our reputation or lack of acceptance of our brand in existing or new markets;
- our expansion into markets that we are unfamiliar with;
- economic and other trends and developments, including adverse weather conditions, in the local or regional areas in which our restaurants are located and specifically in

Texas where a large percentage of our restaurants are located;

- acts of violence at or threatened against our restaurants or centers in which they are located;
- changes in food availability and costs;
- food safety and food borne illness concerns;
- increased competition in the restaurant industry and the segments in which we compete;
- the success of our marketing programs;
- the impact of new restaurant openings, including the effect on our existing restaurants when opening new restaurants in the same markets and restaurant closures;
- strain on our infrastructure and resources caused by our growth;
- the inadequacy of our insurance coverage and fluctuating insurance requirements and costs;
- the impact of security breaches of confidential customer information in connection with our electronic processing of credit and debit card transactions;
- inadequate protection of our intellectual property;
- the failure of our information technology system or the breach of our network security;
- a major natural or man-made disaster;
- labor shortages and increases in our labor costs, including as a result of changes in government regulation;
- the loss of key members of our management team;
- the impact of legislation and regulation regarding nutritional information and new information or attitudes regarding diet and health or adverse opinions about the health of consuming our menu offerings;
- the impact of federal, state and local laws and regulations, including with respect to liquor licenses and food services;
- the impact of litigation;
- the impact of impairment charges;
- the failure of our internal control over financial reporting;
- the impact of federal, state and local tax laws and the Internal Revenue Service disagreeing with our tax position;
- the effect of changes in accounting principles applicable to us;
- the impact of our indebtedness on our ability to invest in the ongoing needs of our business;
- our ability to obtain debt or other financing on favorable terms or at all;
- volatility in the price of our common stock;
- the timing and amount of repurchases of our common stock;
- the impact of future sales of our common stock and any additional capital raised by us through the sale of our common stock or grants of additional equity-based compensation;
- the impact of a downgrade of our shares by securities analysts or industry analysts, the publication of negative research or reports, or lack of publication of reports about our business;
- the effect of anti-takeover provisions in our charter documents and under Delaware law;
- the effect of our decision to not pay dividends for the foreseeable future;
- our ability to raise capital in the future; and
- other risks and uncertainties described from time to time in the Company's Annual Report and other filings with the Securities and Exchange Commission.

Although we believe that the expectations reflected in the forward-looking statements are reasonable based on our current knowledge of our business and operations, we cannot guarantee future results, levels of activity, performance or achievements. The foregoing factors should not be construed as exhaustive and should be read together with other cautionary statements included in this 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. 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 24, 2023, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II—Other Information

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

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 24, 2023:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total number of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs (in millions) (1)
June 26, 2023 through July 23, 2023	—	$ —	—	$ 47.0
July 24, 2023 through August 20, 2023	213,085	38.26	213,085	38.9
August 21, 2023 through September 24, 2023	325,822	36.55	325,822	27.0
Total	538,907	$ 37.23	538,907	

(1) On November 3, 2022, we announced that our Board of Directors approved a new share repurchase program under which we may repurchase up to $50.0 million of our common stock. This repurchase program became effective on October 27, 2022 and expires on December 31, 2024.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description of Exhibit
3.1	Certificate of Amendment to the Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed on July 28, 2023)
3.2	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.3 to the Company's Current Report on Form 8-K, filed on July 28, 2023)
10.1	Chuy's Holdings, Inc. 2023 Employee Stock Purchase Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on July 28, 2023)
10.2	Amended and Restated Credit Agreement dated as of September 27, 2023, by and among Chuy's Holdings, Inc., as borrower, the subsidiaries of Chuy's Holdings, Inc., as guarantors, the lenders party thereto from time to time and JPMorgan Chase Bank, N.A., as administrative agent, swingline lender and issuing lender (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on September 28, 2023)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes- Oxley Act of 2002
101.INS	Inline XBRL Instance Document (The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document)
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

SIGNATURES

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

Date: November 3, 2023

CHUY'S HOLDINGS, INC.

By:	/s/ Steven J. Hislop	
	Name:	Steven J. Hislop
	Title:	President and Chief Executive Officer (Principal Executive Officer)
By:	/s/ Jon W. Howie	
	Name:	Jon W. Howie
	Title:	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Exhibit 31.1

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

I, Steven J. Hislop, certify that:

1. I have reviewed this 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 an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 3, 2023

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

Exhibit 31.2

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

I, Jon W. Howie, certify that:

1. I have reviewed this 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 an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2023

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

Exhibit 32.1

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

In connection with the Quarterly Report on Form 10-Q of Chuy’s Holdings, Inc., a Delaware Corporation (the “Company”), for the period ending September 24, 2023, 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 3, 2023

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

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