CHUY'S HOLDINGS, INC.
Form 10-Q
November 05, 2015

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

FORM 10-Q

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

For the quarterly period ended September 27, 2015

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

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 þ No ¨

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

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

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

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

The number of shares of the registrant’s common stock outstanding at October 30, 2015 was 16,478,461.

Table of Contents

Table of Contents

Table of Contents

Part I—Financial Information
Item 1. Financial Statements

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

	September 27, 2015 (Unaudited)	December 28, 2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$10,598	$3,815
Accounts receivable	658	922
Lease incentives receivable	1,019	4,164
Inventories	1,012	926
Prepaid expenses and other current assets	3,899	3,087
Total current assets	17,186	12,914
Property and equipment, net	130,236	118,807
Other assets and intangible assets, net	1,669	1,522
Tradename	21,900	21,900
Goodwill	24,069	24,069
Total assets	$195,060	$179,212
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$6,121	$5,921
Accrued liabilities	13,726	10,397
Deferred lease incentives	1,717	1,419
Current deferred tax liability	231	231
Total current liabilities	21,795	17,968
Deferred tax liability	10,948	6,976
Accrued deferred rent	6,487	5,252
Deferred lease incentives, less current portion	23,625	22,078
Long-term debt	—	8,750
Total liabilities	62,855	61,024
Commitments and contingencies		
Stockholders' equity		
Common stock, $0.01 par value; 60,000,000 shares authorized; 16,478,461 shares issued and outstanding at September 27, 2015 and 16,440,906 shares issued and outstanding at December 28, 2014	165	164
Preferred stock, $0.01 par value; 15,000,000 shares authorized and no shares issued or outstanding at September 27, 2015 and December 28, 2014	—	—
Paid-in capital	89,806	88,467
Retained earnings	42,234	29,557
Total stockholders' equity	132,205	118,188
Total liabilities and stockholders' equity	$195,060	$179,212

See notes to the Unaudited Condensed Consolidated Financial Statements

3

Table of Contents

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Revenue	$73,910	$64,107	$216,101	$183,342
Costs and expenses:				
Cost of sales	19,674	18,110	57,020	51,618
Labor	23,641	21,763	69,914	61,279
Operating	10,235	8,966	29,734	25,122
Occupancy	4,802	3,782	14,149	11,140
General and administrative	4,073	2,876	12,456	8,738
Marketing	576	422	1,720	1,327
Restaurant pre-opening	1,067	1,273	2,874	3,733
Depreciation and amortization	3,230	2,663	9,422	7,418
Total costs and expenses	67,298	59,855	197,289	170,375
Income from operations	6,612	4,252	18,812	12,967
Interest expense	16	36	93	77
Income before income taxes	6,596	4,216	18,719	12,890
Income tax expense	2,527	1,110	6,042	3,706
Net income	$4,069	$3,106	$12,677	$9,184
Net income per common share:				
Basic	$0.25	$0.19	$0.77	$0.56
Diluted	$0.24	$0.19	$0.76	$0.55
Weighted-average shares outstanding:				
Basic	16,476,472	16,436,585	16,465,499	16,423,301
Diluted	16,760,695	16,706,865	16,726,925	16,711,794

See notes to the Unaudited Condensed Consolidated Financial Statements

Table of Contents

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

	Thirty-Nine Weeks Ended	
	September 27, 2015	September 28, 2014
Cash flows from operating activities:		
Net income	$12,677	$9,184
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,422	7,418
Amortization of loan origination costs	34	34
Stock-based compensation	1,255	731
Excess tax benefit from stock-based compensation	(109)	(523)
Loss on disposal of property and equipment	90	29
Amortization of deferred lease incentives	(1,233)	(932)
Deferred income taxes	3,972	2,937
Changes in operating assets and liabilities:		
Accounts receivable	264	(101)
Inventories	(86)	(143)
Prepaid expenses and other current assets	(812)	(467)
Accounts payable	(2,427)	(1,658)
Accrued liabilities and deferred rent	4,515	1,457
Deferred lease incentives	6,223	3,266
Net cash provided by operating activities	33,785	21,232
Cash flows from investing activities:		
Purchase of property and equipment	(18,097)	(26,369)
Purchase of other assets	(315)	(287)
Net cash used in investing activities	(18,412)	(26,656)
Cash flows from financing activities:		
Borrowings under revolving line of credit	1,000	4,250
Payments under revolving line of credit	(9,750)	(1,500)
Excess tax benefit from stock-based compensation	109	523
Proceeds from the exercise of stock options	105	321
Indirect repurchase of shares for minimum tax withholdings	(54)	—
Net cash (used in) provided by financing activities	(8,590)	3,594
Net increase (decrease) in cash and cash equivalents	6,783	(1,830)
Cash and cash equivalents, beginning of period	3,815	5,323
Cash and cash equivalents, end of period	$10,598	$3,493
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment and other assets acquired by accounts payable	$2,627	$1,348
Supplemental cash flow disclosures:		
Cash paid for interest	$87	$125
Cash paid for income taxes	$2,323	$562

See notes to the Unaudited Condensed Consolidated Financial Statements

Table of Contents

Chuy's Holdings, Inc. and Subsidiaries
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”) is in the business of developing and operating Chuy’s restaurants throughout the United States. Chuy’s is a fast-growing, full-service restaurant concept offering a distinct menu of authentic, freshly-prepared Mexican and Tex Mex inspired food. As of September 27, 2015, the Company operated 65 restaurants in fourteen 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 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 28, 2014. The accompanying condensed consolidated balance sheet as of December 28, 2014, 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 2015 fiscal year will consist of 52 weeks and our 2014 fiscal year consisted of 52 weeks.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Revenue Recognition

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in GAAP when it becomes effective. In July 2015, the FASB voted to defer the effective date of this ASU by one year to annual periods beginning after December 15, 2017 (our 2018 fiscal year). Early adoption is permitted for annual periods beginning after December 15, 2016 (our 2017 fiscal year). The standard permits the use of either the retrospective or cumulative effect transition method. The adoption of this standard update is not expected to have a material impact on our consolidated financial statements.

Debt Issuance Costs

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, which changes the presentation of debt issuance costs in the financial statements from an asset on the balance sheet to a deduction from the related debt liability. Amortization of the costs will continue to be reported as interest expense. ASU 2015-03 is effective for annual and interim reporting periods beginning after December 15, 2015 (our 2016 fiscal year). Early adoption is permitted. The adoption of this standard update is not expected to have a material impact on our consolidated financial statements.

Software Licenses

In April 2015, the FASB issued ASU 2015-05, Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement, which provides guidance about whether a cloud computing arrangement includes a software license. ASU 2015-05 is effective for annual and interim periods beginning after December 15, 2015 (our 2016 fiscal year). Early adoption is permitted. We are currently evaluating the impact, if any, this guidance will have on our 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 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

Table of Contents

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 as "restricted stock units"). For the thirteen weeks ended September 27, 2015 and September 28, 2014 there were approximately 9,500 and 24,000 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-week period ended September 27, 2015 and September 28, 2014, there were approximately 39,000 and 7,000 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.

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

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
BASIC				
NUMERATOR:				
Net income	$4,069	$3,106	$12,677	$9,184
DENOMINATOR:				
Weighted-average common shares outstanding	16,476,472	16,436,585	16,465,499	16,423,301
Basic net income per common share	$0.25	$0.19	$0.77	$0.56
DILUTED				
NUMERATOR:				
Net income	$4,069	$3,106	$12,677	$9,184
DENOMINATOR:				
Weighted-average common shares outstanding	16,476,472	16,436,585	16,465,499	16,423,301
Dilutive effect of stock options and restricted stock units	284,223	270,280	261,426	288,493
Weighted-average of diluted shares	16,760,695	16,706,865	16,726,925	16,711,794
Diluted net income per common share	$0.24	$0.19	$0.76	$0.55

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. 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 27, 2015, a total of 896,591 shares of common stock are reserved and remain available for issuance under the 2012 Plan.

Stock-based compensation cost recognized in the accompanying consolidated income statements was $450,000 and $332,000 for the thirteen weeks ended September 27, 2015 and September 28, 2014 and $1,255,000 and $731,000 for the thirty-nine weeks ended September 27, 2015 and September 28, 2014.

Stock Options

A summary of stock-based compensation activity related to stock options for the thirty-nine weeks ended September 27, 2015 are as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at December 28, 2014	684,188	$12.27		
Exercised	(18,083)	5.78		
Forfeited	(19,290)	32.01		

Outstanding at September 27, 2015	646,815	$11.86	4.05	$10,424
Exercisable at September 27, 2015	526,983	$8.87	3.35	$9,979

The aggregate intrinsic value in the table above is obtained by subtracting the weighted average exercise price from the estimated fair value of the underlying common stock as of September 27, 2015 and multiplying this result by the related number of options outstanding and exercisable at September 27, 2015. The estimated fair value of the common stock as of September 27, 2015 used

Table of Contents

in the above calculation was $27.69 per share, the closing price of the Company’s common stock on September 25, 2015, the last trading day of the third quarter. The total intrinsic value of options exercised during the thirty-nine weeks ended September 27, 2015 was $357,000. The fair value of options vested during the thirty-nine weeks ended September 27, 2015 was $560,000.

There was approximately $922,000 of total unrecognized compensation costs related to options granted under the 2006 Plan and the 2012 Plan as of September 27, 2015. These costs will be recognized ratably through the year 2019.

Restricted Stock Units

A summary of stock-based compensation activity related to restricted stock units for the thirty-nine weeks ended September 27, 2015 are as follows:

	Shares	Weighted Average Fair Value	Weighted Average Remaining Contractual Term (Year)	Total Compensation Cost Related to Non-Vested Awards
Outstanding at December 28, 2014	87,428	$40.36		
Granted	109,023	23.51		
Vested	(21,849)	40.36		
Forfeited	(4,250)	33.50		
Outstanding at September 27, 2015	170,352	$29.75	2.99	$4,252

The fair value of the restricted stock units is the quoted market value of our common stock on the date of grant. As of September 27, 2015, total unrecognized stock-based compensation expense related to non-vested restricted stock units was approximately $4.3 million, which is expected to be recognized ratably through the year 2020.

5. LONG-TERM DEBT

Revolving Credit Facility

On November 30, 2012, the Company entered into a secured $25 million revolving credit facility (the “Revolving Credit Facility”) with Wells Fargo Bank, National Association, which replaced the Company's previous credit facility. As of September 27, 2015, the interest rate on our Revolving Credit Facility was 1.91%. The Revolving Credit Facility requires the Company to comply 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, Chuy's may declare and make dividend payments so long as (i) no default or event of default has occurred and is continuing or would result therefrom and (ii) immediately after giving effect to any such dividend payment, on a pro forma basis, the lease adjusted leverage ratio is at least .50 less than the ratio required to be maintained at such time.

The obligations under the Company’s Revolving Credit Facility are secured by a first priority lien on substantially all of the Company’s assets. As of September 27, 2015 we had no borrowings under our Revolving Credit Facility, and the amount available for future borrowings was $25 million.

On October 30, 2015, we entered into an amendment to our Revolving Credit Facility. For additional information, see Note 9 to the Notes to the Unaudited Condensed Consolidated Financial Statements.

6. ACCRUED LIABILITIES

The major classes of accrued liabilities at September 27, 2015 and December 28, 2014 are summarized as follows:

	September 27, 2015	December 28, 2014
Accrued compensation and related benefits	$6,996	$3,883
Other accruals	2,304	2,582
Sales and use tax	1,977	1,779
Deferred gift card revenue	941	1,326
Property tax	1,508	827
Total accrued liabilities	$13,726	$10,397

8

Table of Contents

7. COMMITMENTS AND CONTINGENCIES

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

8. INCOME TAXES

Due to higher pre-tax income levels and the utilization of the Company's remaining federal net operating loss carryforwards in the first half of 2015, the Company's federal statutory tax rate increased from 34% to 35% in the third quarter of 2015 and began paying federal tax obligations from operating cash flows.

9. SUBSEQUENT EVENTS

Subsequent to September 27, 2015, the Company opened two new restaurants for a total of sixty-seven restaurants, in fourteen states.

On October 30, 2015, the Company entered into an amendment (the “Amendment”) to its Revolving Credit Facility. The Amendment made changes to the 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. The Revolving Credit Facility as amended by the Amendment will continue to contain customary affirmative and negative covenants and events of default, including covenants settings a maximum leverage ratio and a minimum fixed charge coverage ratio.

Table of Contents

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 “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 that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Risk Factors" in our Annual Report on Form 10-K for the year ended December 28, 2014 (our "Annual Report") and those set forth under "Cautionary Statements 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 fast-growing, full-service restaurant concept offering a distinct menu of authentic, freshly-prepared Mexican and Tex Mex inspired food. We were founded in Austin, Texas in 1982 and, as of September 27, 2015, we operated 65 Chuy’s restaurants across fourteen 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;
- "Backfill" smaller existing markets to build brand awareness;
- Deliver consistent same store sales through providing high-quality food and service; and
- Leverage our infrastructure.

As of September 27, 2015, we opened six restaurants year-to-date and opened two additional restaurant subsequent to September 27, 2015. Over the next five years, we expect to grow our restaurant base by a compounded annualized growth rate of approximately 20%. We have an established presence in Texas, the Southeast and the Midwest, with restaurants in multiple large markets in these regions. Our growth plan over the next five years focuses on developing additional locations in our existing core markets and major markets while continuing to "backfill" our smaller existing markets in order to build our brand awareness.

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

10

Table of Contents

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 48 and 39 restaurants at September 27, 2015 and September 28, 2014, respectively.

- Average Check. Average check is calculated by dividing revenue by total entrées sold for a given time period. Average check reflects menu price increases as well as changes in menu mix. Our management team uses this indicator to analyze trends in customers' preferences, effectiveness of menu changes and price increases and per customer expenditures.
- Average Weekly Customers. Average weekly customers is measured by the number of entrées sold per week. Our management team uses this metric to measure changes in customer traffic.
- Average Unit Volume. Average unit volume consists of the average sales of our comparable restaurants over a certain period of time. This measure is calculated by dividing total comparable restaurant sales within a period of time by the total number of comparable restaurants within the relevant period. This indicator assists management in measuring changes in customer traffic, pricing and development of our brand.
- Operating Margin. Operating margin represents income from operations as a percentage of our revenue. By monitoring and controlling our operating margins, we can gauge the overall profitability of our company.

The following table presents operating data for the periods indicated:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 27, 2015	September 28, 2014	September 27, 2015	September 28, 2014
Total restaurants (at end of period)	65	58	65	58
Total comparable restaurants (at end of period)	48	39	48	39
Average unit volumes (in thousands)	$1,200	$1,230	$3,630	$3,728
Change in comparable restaurant sales	4.2 %	3.0 %	3.1 %	3.1 %
Average check	$14.27	$13.65	$14.24	$13.71

Our Fiscal Year

We operate on a 52- or 53-week fiscal year that ends on the last Sunday of the calendar year. Each quarterly period has 13 weeks, except for a 53-week year when the fourth quarter has 14 weeks. Our 2014 fiscal year consisted of 52 weeks and our 2015 fiscal year will consist of 52 weeks.

Key Financial Definitions

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

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

Labor Costs. Labor costs include restaurant management salaries, front-and back-of-house hourly wages and restaurant-level manager bonus expense 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 decline as a percentage of revenue.

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

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

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

Table of Contents

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.
Depreciation and Amortization. Depreciation and amortization principally include depreciation on fixed assets, including equipment and leasehold improvements, and amortization of certain intangible assets for restaurants.
Interest Expense. Interest expense consists primarily of interest on our outstanding indebtedness and the amortization of our debt issuance costs reduced by capitalized interest.
Results of Operations
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 rising 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 also is 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. Holidays, severe winter weather, hurricanes, thunderstorms and similar conditions may impact restaurant unit volumes in some of the markets where we operate and may have a greater impact should they occur during our higher volume months. As a result of these and other factors, our financial results for any given quarter may not be indicative of the results that may be achieved for a full fiscal year.
Thirteen Weeks Ended September 27, 2015 Compared to Thirteen Weeks Ended September 28, 2014
The following table presents, for the periods indicated, the consolidated statement of operations (in thousands):

	Thirteen Weeks Ended								
	September 27, 2015	% of Revenue		September 28, 2014	% of Revenue		$ Change	% Change	
Revenue	$73,910	100.0	%	$64,107	100.0	%	$9,803	15.3	%
Costs and expenses:									
Cost of sales	19,674	26.6	%	18,110	28.2	%	1,564	8.6	%
Labor	23,641	32.0	%	21,763	33.9	%	1,878	8.6	%
Operating	10,235	13.8	%	8,966	14.0	%			