CHUY'S HOLDINGS, INC.
Form 10-Q
November 08, 2013
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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 29, 2013
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	¨
Non-accelerated filer	þ (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 31, 2013 was 16,380,833.

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Part I—Financial Information
Item 1. Financial Statements
Chuy's Holdings, Inc. and Subsidiaries
Unaudited Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

	September 29, 2013	December 30, 2012
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$3,223	$5,855
Accounts receivable	441	564
Lease incentives receivable	4,222	4,213
Inventories	670	621
Prepaid expenses and other current assets	2,754	1,730
Total current assets	11,310	12,983
Property and equipment, net	84,494	68,414
Other assets and intangible assets, net	2,832	2,355
Tradename	21,900	21,900
Goodwill	24,069	24,069
Total assets	$144,605	$129,721
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$4,196	$3,463
Accrued liabilities	9,855	11,156
Deferred lease incentives	1,044	1,044
Total current liabilities	15,095	15,663
Deferred tax liability	6,656	4,186
Accrued deferred rent	3,158	1,902
Deferred lease incentives, less current portion	17,829	15,507
Long-term debt	4,000	5,000
Total liabilities	46,738	42,258
Commitments and contingencies		
Stockholders' equity		
Common stock, $0.01 par value; 60,000,000 shares authorized; 16,380,290 shares issued and outstanding at September 29, 2013 and 15,918,427 shares issued and outstanding at December 30, 2012	164	159
Preferred stock, $0.01 par value; 15,000,000 shares authorized and no shares issued or outstanding at September 29, 2013 and December 30, 2012	—	—
Paid-in capital	82,089	80,307
Retained earnings	15,614	6,997
Total stockholders' equity	97,867	87,463
Total liabilities and stockholders' equity	$144,605	$129,721

See notes to the Unaudited Condensed Consolidated Financial Statements

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Unaudited Condensed Consolidated Income Statements
(In thousands, except share and per share data)

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 29, 2013	September 23, 2012	September 29, 2013	September 23, 2012
Revenue	$53,476	$44,939	$153,601	$125,960
Costs and expenses:				
Cost of sales	14,863	12,194	42,064	33,764
Labor	17,552	14,613	49,267	40,295
Operating	7,658	6,490	21,742	17,810
Occupancy	3,221	2,726	9,220	7,536
General and administrative	2,418	2,497	7,720	6,419
Advisory agreement termination fee	—	—	—	2,000
Secondary offering costs	—	—	925	—
Marketing	409	344	1,163	954
Restaurant pre-opening	983	934	3,004	2,914
Depreciation and amortization	2,324	1,725	6,418	4,672
Total costs and expenses	49,428	41,523	141,523	116,364
Income from operations	4,048	3,416	12,078	9,596
Interest expense	23	2,285	80	5,451
Income before income taxes	4,025	1,131	11,998	4,145
Income tax expense	1,209	341	3,381	1,243
Net income	2,816	790	8,617	2,902
Undistributed earnings allocated to participating interests	—	257	—	2,171
Net income available to common stockholders	$2,816	$533	$8,617	$731
Net income per common share:				
Basic	$0.17	$0.05	$0.53	$0.21
Diluted	$0.17	$0.05	$0.52	$0.19
Weighted-average shares outstanding:				
Basic	16,344,454	10,215,755	16,241,661	3,539,732
Diluted	16,712,618	14,033,234	16,658,585	11,501,870

See notes to the Unaudited Condensed Consolidated Financial Statements

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Unaudited Condensed Consolidated Statements of Cash Flows
(In thousands)

	Thirty-Nine Weeks Ended	
	September 29, 2013	September 23, 2012
Cash flows from operating activities:		
Net income	$8,617	$2,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,418	4,672
Amortization of loan origination costs	34	241
Write-off of loan origination costs associated with paydown of long-term debt	—	1,581
Stock-based compensation	383	252
(Gain) loss on disposal of property and equipment	(16)	21
Amortization of deferred lease incentives	(871)	(620)
Deferred income taxes	2,470	889
Changes in operating assets and liabilities:		
Accounts receivable	123	(51)
Inventories	(49)	20
Prepaid expenses and other current assets	(1,024)	(490)
Lease origination costs	(174)	(103)
Accounts payable	(1,069)	22
Accrued liabilities	(45)	3,266
Deferred lease incentives	3,184	2,609
Net cash provided by operating activities	17,981	15,211
Cash flows from investing activities:		
Purchase of property and equipment	(20,679)	(20,118)
Purchase of other assets	(330)	(319)
Net cash used in investing activities	(21,009)	(20,437)
Cash flows from financing activities:		
Payments on long-term debt	—	(77,006)
Borrowings on long-term debt	—	29,500
Purchase of stock	—	(22,474)
Proceeds from sale of common stock, net of underwriting fees	—	81,104
Deferred offering costs	—	(2,137)
Borrowings under revolving line of credit	1,000	2,250
Payments under revolving line of credit	(2,000)	(4,950)
Loan origination costs	(8)	(327)
Proceeds from the exercise of stock options	1,404	—
Net cash provided by financing activities	396	5,960
Net increase (decrease) in cash and cash equivalents	(2,632)	734
Cash and cash equivalents, beginning of period	5,855	2,827
Cash and cash equivalents, end of period	$3,223	$3,561
Supplemental disclosure of non-cash investing and financing activities:		
Property and equipment and other assets acquired by accounts payable	$1,802	$—
Supplemental cash flow disclosures:		
Cash paid for interest	$99	$1,805
Cash paid for income taxes	$643	$366

Deferred offering costs paid in 2011 reclassed to equity	$—	$875

See notes to the Unaudited Condensed Consolidated Financial Statements

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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 29, 2013, the Company operated 46 restaurants in thirteen 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 30, 2012.

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

Certain prior period amounts were reclassified to conform to the 2013 presentation. These reclassifications had no impact on net income or total equity.

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 2012 fiscal year consisted of 53 weeks and our 2013 fiscal year will consist of 52 weeks.

On January 30, 2013, a secondary offering of the Company's common stock was completed by certain of the Company's existing stockholders. The selling stockholders sold 5,175,000 previously outstanding shares, including 675,000 shares sold pursuant to the full exercise of the underwriters' option to purchase additional shares.

On April 17, 2013, a secondary offering of the Company's common stock was completed by certain of the Company's existing stockholders. The selling stockholders sold 3,000,000 previously outstanding shares. In addition, the underwriters exercised their option to purchase an additional 257,113 shares of common stock from the selling stockholders.

The Company did not receive any proceeds from these two offerings. The selling stockholders paid all of the underwriting discounts and commissions associated with the sale of the shares; however, the Company incurred approximately $1.2 million in costs and registration expenses related to the offerings, of which $925,000 was incurred during the thirty-nine weeks ended September 29, 2013.

2. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") number 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists — a consensus of the FASB Emerging Issues Task Force. ASU 2013-11 generally requires, with some exceptions, an entity to present its unrecognized tax benefits as it relates to its net operating loss carryforwards, similar tax losses, or tax credit carryforwards, as a reduction of deferred tax assets when settlement is available under the tax law of the applicable taxing jurisdiction as of the balance sheet reporting date. It is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Retrospective application is permitted. The Company does not anticipate a material impact on its financial position, results of operations or cash flows as a result of this change.

3. EARNINGS PER SHARE

The number of shares and earnings per share ("EPS") data for all periods presented are based on the historical weighted-average shares of common stock outstanding. EPS for the thirteen weeks and thirty-nine weeks ended

September 23, 2012 is computed using the two-class method. The two-class method determines EPS for common stock and participating securities according to dividends and dividend equivalents and their respective participation rights in undistributed earnings. The Company’s convertible preferred stockholders were entitled to receive dividends in the event dividends on the Company’s common stock were declared. As a result, the shares of the Company’s convertible preferred stock were deemed to be participating securities.

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In connection with the Company's initial public offering ("IPO"), in July of 2012, all shares of series A preferred stock, series B preferred stock and series X preferred stock were converted into common stock.
Basic EPS of the Company's common stock is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding for the period.
Diluted EPS of the Company's common stock is computed on the basis of the weighted-average number of shares of common stock plus the effect of dilutive potential shares of common stock equivalents outstanding during the period using the treasury stock method for dilutive options and the if converted method for convertible preferred stock.
The computation of basic and diluted earnings per share is as follows:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 29, 2013	September 23, 2012	September 29, 2013	September 23, 2012
BASIC				
NUMERATOR:				
Net income	$2,816	$790	$8,617	$2,902
Less: liquidation preference and preferred return on series X preferred stock	—	86	—	577
Less: undistributed earnings allocated to participating interest	—	171	—	1,594
Net income available to common stockholders	$2,816	$533	$8,617	$731
DENOMINATOR:				
Weighted-average common shares outstanding	16,344,454	10,215,755	16,241,661	3,539,732
Basic net income per common share	$0.17	$0.05	$0.53	$0.21
DILUTED				
NUMERATOR:				
Net income	$2,816	$790	$8,617	$2,902
Less: liquidation preference and preferred return on series X preferred stock	—	86	—	577
Less: undistributed earnings allocated to participating interest	—	10	—	91
Net income available to common and participating stockholders	$2,816	$694	$8,617	$2,234
DENOMINATOR:				
Weighted-average common shares outstanding	16,344,454	10,215,755	16,241,661	3,539,732
Dilutive effect of preferred stock conversion	—	3,083,397	—	7,279,884
Dilutive effect of stock options	368,164	734,082	416,924	682,254
Weighted-average of diluted shares	16,712,618	14,033,234	16,658,585	11,501,870
Diluted net income per common share	$0.17	$0.05	$0.52	$0.19

4. STOCK-BASED COMPENSATION
The Company has outstanding awards under the 2006 Plan. The outstanding options vest 20% on each of the first five anniversaries of the date of grant and have a maximum term of 10 years. In connection with the IPO, the Company terminated the 2006 Plan, and no further awards will be granted under the 2006 Plan. The termination of the 2006 Plan did not affect awards outstanding under the 2006 Plan at the time of its termination and the terms of the 2006 Plan continue to govern those outstanding awards.
In connection with the IPO, the Company adopted the 2012 Omnibus Equity Incentive Plan (the "2012 Plan") which allows the Company's Board of Directors to grant stock options, restricted stock, and other equity-based awards to directors, officers, and key employees of the Company. The 2012 Plan provides for granting of options to purchase shares of common stock at an exercise price not less than the fair value of the stock on the date of grant. The outstanding options vest 20% on each of the first five anniversaries of the date of grant and have a maximum term of

10 years. As of September 29, 2013, a total of 1,080,120 shares of common stock are reserved and remain available for issuance under the 2012 Plan.

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Stock-based compensation cost recognized in the accompanying consolidated income statements was $147,000 and $77,000 for the thirteen weeks ended September 29, 2013 and September 23, 2012, respectively, and $383,000 and $252,000 for the thirty-nine weeks ended September 29, 2013 and September 23, 2012, respectively.

A summary of stock-based compensation activity and changes for the thirty-nine weeks ended September 29, 2013 are as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Year)	Aggregate Intrinsic Value
Outstanding and expected to vest at December 30, 2012	1,052,861	$5.28		
Granted	145,907	28.97		
Exercised	(463,613)	3.07		
Forfeited	(2,702)	12.18		
Outstanding and expected to vest at September 29, 2013	732,453	$11.37	5.73	$16,757
Exercisable at September 29, 2013	467,978	$5.60	4.47	$13,406

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 29, 2013 and multiplying this result by the related number of options outstanding and exercisable at September 29, 2013. The estimated fair value of the common stock as of September 29, 2013 used in the above calculation was $34.25 per share, the closing price of the Company’s common stock on September 27, 2013, the last trading day of the third quarter.

The weighted-average grant date fair value of options granted during the thirty-nine weeks ended September 29, 2013 was $11.02 per share, as estimated at the date of grant using the Black-Scholes pricing model with the following weighted-average assumptions:

Dividend yield	0	%
Expected volatility	43	%
Risk-free rate of return	0.79	%
Expected life (in years)	5	

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

There was approximately $2.0 million of total unrecognized compensation costs related to options granted under the 2006 Plan and the 2012 Plan as of September 29, 2013. These costs will be recognized ratably through the year 2018. In the event of a change of control, approximately $428,000 of the Company’s unrecognized compensation costs would be immediately recognized.

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. The Revolving Credit Facility (a) will mature on November 30, 2017, unless the Company exercises its option to voluntarily reduce all of the commitment before the maturity date, (b) accrues commitment fees on the daily unused balance of the facility at an applicable margin, which varies based on the Company’s consolidated total lease adjusted

leverage ratio and (c) provides for letters of credit in amounts totaling the lesser of $5 million or the available borrowings under our Revolving Credit Facility. All borrowings under the Revolving Credit Facility bear interest at a variable rate based upon the Company’s election, of (i) the base rate (which is the highest of the prime rate, federal funds rate plus 0.50% or one month LIBOR) plus 1%, or (ii) LIBOR, plus, in either case, an applicable margin based on the Company’s consolidated total lease adjusted leverage ratio. Interest is due at the end of each quarter if the Company

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selects to pay interest based on the base rate and at the end of each LIBOR period if it selects to pay interest based on LIBOR. The Company has elected a variable rate of interest based on LIBOR. As of September 29, 2013, this interest rate was 1.94%.

As a result of entering into the Revolving Credit Facility, the Company paid loan origination costs of approximately $216,000 related to the Revolving Credit Facility, and will amortize these loan origination costs over the term of the credit agreement.

The obligations under the Company’s long-term debt are secured by a first priority lien on substantially all of the Company’s assets.

The Revolving Credit Facility requires the Company to comply with certain financial covenants including leverage ratios, fixed charge ratios, capital expenditures as well as other customary affirmative and negative covenants. As of September 29, 2013, the Company was in compliance with all covenants under the Revolving Credit Facility.

6. ACCRUED LIABILITIES

The major classes of accrued liabilities at September 29, 2013 and December 30, 2012 are summarized as follows:

	September 29, 2013	December 30, 2012
Accrued compensation and related benefits	$3,726	$4,289
Other accruals	2,515	3,020
Sales, property, and liquor taxes	2,847	2,772
Deferred gift card revenue	756	1,062
Accrued interest	11	13
Total accrued liabilities	$9,855	$11,156

7. INCOME TAXES

The effective income tax rate for the thirty-nine weeks ended September 29, 2013 was 28.2% compared to an effective income tax rate of 30.0% for the thirty-nine weeks ended September 23, 2012. The decrease in the effective income tax rate from the prior year was primarily attributable to the favorable impact of a one time adjustment made for incremental employment tax credits for the current year as well as the previous open tax years, which resulted in a $556,000 net favorable impact in net income during the thirty-nine weeks ended September 29, 2013. The decrease in the effective income tax rate was partially offset by the unfavorable impact of the non-tax deductible secondary offering costs incurred during the current thirty-nine weeks ended September 29, 2013. The impact on the effective income tax rate for these items will be treated discretely in this thirty-nine week period as required by the FASB's Accounting Standards Codification. The effective income tax rate for 2013 excluding these discrete items is estimated to be approximately 30%.

Since the Company has net operating loss carry forwards, the net favorable tax benefit mentioned above will primarily increase the general business credits deferred tax asset.

8. SUBSEQUENT EVENTS

Subsequent to September 29, 2013, the Company opened one new restaurant, in Missouri, for a total of 47 restaurants, in fourteen states.

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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 subsidiarie

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 30, 2012 (our "Annual 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 by Mike Young and John Zapp, and as of September 29, 2013, we operated 46 Chuy’s restaurants across Texas, Tennessee, Kentucky, Alabama, Indiana, Georgia, Oklahoma, Florida, Virginia, Arkansas, North Carolina, South Carolina and Ohio.

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;
- Deliver consistent same store sales through providing high-quality food and service; and
- Leverage our infrastructure.

As of September 29, 2013, we opened seven restaurants year-to-date. We also opened one additional restaurant subsequent to September 29, 2013, our first restaurant in Missouri. 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, new core markets and in smaller markets surrounding each of those core markets.

Performance Indicators

We use the following performance indicators in evaluating our performance:

- Number of Restaurant Openings. Number of restaurant openings reflects the number of restaurants opened during a particular fiscal period. For restaurant openings we incur pre-opening costs, which are defined below, before the restaurant opens. Typically new restaurants open with an initial start-up period of higher than normalized sales volumes, which decrease to a steady level approximately six to twelve months after opening. However, operating costs during this initial six to twelve month period are also higher than normal, resulting in restaurant operating margins that are generally lower during the start-up period of operation and increase to a steady level approximately nine to twelve months after opening.
- Comparable Restaurant Sales. We consider a restaurant to be comparable in the first full quarter following the 18th month of operations. Changes in comparable restaurant sales reflect changes in sales for the comparable group of

restaurants over a specified period of time. Changes in comparable sales reflect changes in customer count trends as well as changes in average check. Our comparable restaurant base consisted of 31 and 23 restaurants at September 29, 2013 and September 23, 2012, respectively.

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

The following table presents operating data for the periods indicated:

	Thirteen Weeks Ended		Thirty-Nine Weeks Ended	
	September 29, 2013	September 23, 2012	September 29, 2013	September 23, 2012
Total restaurants (at end of period)	46	38	46	38
Total comparable restaurants (at end of period)	31	23	31	23
Average sales per comparable restaurant (in thousands)	$1,233	$1,263	$3,732	$3,823
Change in comparable restaurant sales (1)	3.1 %	1.5 %	2.5 %	2.0 %
Average check (2)	$13.47	$13.20	$13.48	$13.20

(1) We consider a restaurant to be comparable in the first full quarter following the eighteenth month of operations. Change in comparable restaurant sales reflect changes in sales for the comparable group of restaurants over a specified period of time. Due to the inclusion of a 53rd week in fiscal 2012, there is a one-week calendar shift in the comparison of the first three fiscal quarters of 2013 ended September 29, 2013, to the first three fiscal quarters of 2012 ended September 23, 2012. As a result, our comparable restaurant sales calculation above is based on comparing sales in the fiscal thirteen-week and thirty-nine week periods in 2013 to sales in the corresponding calendar periods of 2012. Sales for the same 31 restaurants in the comparable restaurant base in the thirteen-week and thirty-nine week periods ended September 29, 2013 increased 1.9% and 1.8%, respectively, as compared to the thirteen-week and thirty-nine week fiscal periods ended September 23, 2012.

(2) Average check is calculated by dividing revenue by number of entrées sold for a given 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 2012 fiscal year consisted of 53 weeks and our 2013 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, such as management and employee meals, associated with each sale. Revenue in a given period is directly influenced by the number of operating weeks in such period, the number of restaurants we operate and comparable restaurant sales growth.

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

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

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

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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, financial advisory fees paid to Goode Partners LLC (during 2012), legal and professional fees, information systems, corporate office rent and other related corporate costs. As a public company, we expect our stock-based compensation expense to increase. In addition, we estimate that we will incur approximately $1.3 million to $1.6 million of incremental general and administrative expenses annually as a result of being a public company.

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

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

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 three to six 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.

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Thirteen Weeks Ended September 29, 2013 Compared to Thirteen Weeks Ended September 23, 2012

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

	Thirteen Weeks Ended								
	September 29, 2013	% of Revenue		September 23, 2012	% of Revenue		Change	% Change	
Revenue	$53,476	100.0	%	$44,939	100.0	%	$8,537	19.0	%
Costs and expenses:									
Cost of sales	14,863	27.8	%	12,194	27.1	%	2,669	21.9	%
Labor	17,552	32.8	%	14,613	32.5	%	2,939	20.1	%
Operating	7,658	14.3	%	6,490	14.4	%	1,168	18.0	%
Occupancy	3,221	6.0	%	2,726	6.1	%	495	18.2	%
General and administrative	2,418	4.5	%	2,497	5.6	%	(79)	(3.2	)%
Marketing	409	0.8	%	344	0.8	%	65	18.9	%
Restaurant pre-opening	983	1.9	%	934	2.1	%	49	5.2	%
Depreciation and amortization	2,324	4.3	%	1,725	3.8	%	599	34.7	%
Total costs and expenses	49,428	92.4	%	41,523	92.4	%	7,905	19.0	%
Income from operations	4,048	7.6	%	3,416	7.6	%	632	18.5	%
Interest expense	23	0.1	%	2,285	5.1	%	(2,262)	(99.0	)%
Income before income taxes	4,025	7.5	%	1,131	2.5	%	2,894	255.9	%
Income tax expense	1,209	2.2	%	341	0.8	%	868	254.5	%
Net income	$2,816	5.3	%	$790	1.7	%	$2,026	256.5	%

Revenue. Revenue increased $8.5 million, or 19.0%, to $53.5 million for the thirteen weeks ended September 29, 2013, as compared to $44.9 million for the thirteen weeks ended September 23, 2012. This increase was primarily driven by $9.2 million in incremental revenue from an additional 110 operating weeks provided by 11 new restaurants opened during and subsequent to the thirteen weeks ended September 23, 2012 and increased revenue at our comparable restaurants. These increases were partially offset by a decrease in revenue related to non-comparable restaurants that are not included in the incremental revenue discussed above. Our non-comparable restaurant revenue decreased from higher than normal revenue during the thirteen weeks ended September 29, 2013 as a result of the 'honeymoon' period that follows a restaurant's initial opening.

Due to the inclusion of a 53rd week in fiscal 2012, there is a one-week calendar shift in the comparison of the third fiscal quarter of 2013 ended September 29, 2013, to the third fiscal quarter of 2012 ended September 23, 2012. As a result, we calculate comparable restaurant sales by comparing sales in the third fiscal quarter of 2013 to sales in the corresponding thirteen week calendar period ended September 30, 2012. Comparable restaurant sales increased 3.1% for the thirteen week period ended September 29, 2013 compared to the thirteen week calendar period ended September 30, 2012. The increase in comparable restaurant sales was driven primarily by a 2.0% increase in average check and a 1.1% increase in average weekly customers. Sales for the same restaurants in the third fiscal quarter ended September 29, 2013 increased 1.9% compared to the third fiscal quarter of 2012 ended September 23, 2012. Our revenue mix attributed to bar sales decreased to 18.5% during the thirteen weeks ended September 29, 2013 from 19.2%, primarily as the result of lower bar sales as a percent of total revenue at certain new locations.

Cost of Sales. Cost of sales as a percentage of revenue increased to 27.8% during the thirteen weeks ended September 29, 2013, from 27.1% during the same period in 2012, primarily as a result of higher chicken and produce costs.

Labor Costs. Labor costs as a percentage of revenue increased to 32.8% during the thirteen weeks ended September 29, 2013, from 32.5% during the same period in 2012, primarily as a result of increased training and staffing levels at our new restaurants, partially offset by improved labor efficiency in our comparable restaurants.

Operating Costs. Operating costs as a percentage of revenue decreased to 14.3% during the thirteen weeks ended September 29, 2013 from 14.4% during the same period in 2012. The decrease in the current period was primarily caused by lower liquor taxes as a result of opening more locations outside of Texas, which charges a higher liquor tax than other jurisdictions, partially offset by higher utility costs as a percentage of revenue.

Occupancy Costs. Occupancy costs as a percentage of revenue decreased to 6.0% during the thirteen weeks ended September 29, 2013 from 6.1% during the same period in 2012, primarily as a result of lower common area maintenance costs as a percentage of revenue.

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General and Administrative Expenses. General and administrative expenses decreased $0.1 million, or 3.2%, to $2.4 million for the thirteen weeks ended September 29, 2013, as compared to $2.5 million during the same period in 2012. This decrease was primarily driven by lower performance-based bonuses during the thirteen weeks ended September 29, 2013 compared to the same period in 2012, partially offset by an increase in salary expense associated with additional employees as we continue to strengthen our infrastructure for growth.

Marketing Costs. As a percentage of revenue, marketing costs remained flat at approximately 0.8%.

Restaurant Pre-opening Costs. Restaurant pre-opening costs decreased by $0.1 million, or 5.2%, to $1.0 million for the thirteen weeks ended September 29, 2013, as compared to $0.9 million for the thirteen weeks ended September 23, 2012. This decrease is primarily due to the timing of the opening dates and stage of development for the restaurants in development during the periods.

Depreciation and Amortization. Depreciation and amortization as a percentage of revenue increased to 4.3% for the thirteen weeks ended September 29, 2013, as compared to 3.8% during the same period in 2012. This increase is primarily related to the increase in equipment and leasehold improvement costs related to new restaurant openings.

Interest Expense. Interest expense decreased $2.3 million for the thirteen weeks ended September 29, 2013, as compared to the thirteen weeks ended September 23, 2012. The decrease was primarily due to the $1.6 million write off of loan origination costs associated with the pay down of $79.4 million of borrowings with proceeds from the IPO during the comparable period in 2012. In addition, interest expense decreased due to decreased average outstanding borrowings under our senior secured credit facility during the thirteen weeks ended September 29, 2013, compared to the same period in 2012. Borrowings during the thirteen weeks ended September 29, 2013 averaged approximately $4.4 million, while borrowings during the same period in 2012 averaged approximately $32.0 million. In addition, our interest rate on outstanding borrowings as of September 29, 2013 was 1.94% compared to 8.50% as of September 23, 2012.

Income Tax Expense. For the thirteen weeks ended September 29, 2013 our effective tax rate decreased to 30.0% from 30.2% during the same period in 2012. The effective tax rates differ from the statutory rate of 34.0% primarily due to the non-deductible secondary offering costs offset by normal recurring tax credits attributable to FICA taxes paid on employee tips.

Net Income. As a result of the foregoing, net income increased $2.0 million, to $2.8 million for the thirteen weeks ended September 29, 2013 from $0.8 million during the same period in 2012. We had net income available to common stockholders of $2.8 million for the thirteen weeks ended September 29, 2013 as compared to net income available to common stockholders of $0.5 million during the same period in 2012.

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Thirty-Nine Weeks Ended September 29, 2013 Compared to Thirty-Nine Weeks Ended September 23, 2012
The following table presents, for the periods indicated, the consolidated statement of operations (in thousands):

	Thirty-Nine Weeks Ended								
	September 29, 2013	% of Revenue		September 23, 2012	% of Revenue		Change	% Change	
Revenue	$153,601	100.0	%	$125,960	100.0	%	$27,641	21.9	%
Costs and expenses:									
Cost of sales	42,064	27.4	%	33,764	26.8	%	8,300	24.6	%
Labor	49,267	32.0	%	40,295	32.0	%	8,972	22.3	%
Operating	21,742	14.2	%	17,810	14.1	%	3,932	22.1	%
Occupancy	9,220	6.0	%	7,536	6.0	%	1,684	22.3	%
General and administrative	7,720	5.0	%	6,419	5.1	%	1,301	20.3	%
Advisory agreement termination fee	—	—	%	2,000	1.6	%	(2,000)	(100.0	)%
Secondary offering costs	925	0.6	%	—	—	%	925	100.0	%
Marketing	1,163	0.8	%	954	0.8	%	209	21.9	%
Restaurant pre-opening	3,004	2.0	%	2,914	2.3	%	90	3.1	%
Depreciation and amortization	6,418	4.1	%	4,672	3.7	%	1,746	37.4	%
Total costs and expenses	141,523	92.1	%	116,364	92.4	%	25,159	21.6	%
Income from operations	12,078	7.9	%	9,596	7.6	%	2,482	25.9	%
Interest expense	80	0.1	%	5,451	4.3	%	(5,371)	(98.5	)%
Income before income taxes	11,998	7.8	%	4,145	3.3	%	7,853	189.5	%
Income tax expense	3,381	2.2	%	1,243	1.0	%	2,138	172.0	%
Net income	$8,617	5.6	%	$2,902	2.3	%	$5,715	196.9	%

Revenue. Revenue increased $27.6 million, or 21.9%, to $153.6 million for the thirty-nine weeks ended September 29, 2013, as compared to $126.0 million for the thirty-nine weeks ended September 23, 2012. This increase was primarily driven by $28.9 million in incremental revenue from an additional 332 operating weeks provided by 15 new restaurants opened during and subsequent to the thirty-nine week period ended September 23, 2012 and increased revenue at our comparable restaurants. These increases were partially offset by a decrease in revenue related to non-comparable restaurants that are not included in the incremental revenue discussed above. Our non-comparable restaurant revenue decreased from higher than normal revenue during the thirty-nine week period ended September 29, 2013 as a result of the 'honeymoon' period that follows a restaurant's initial opening.

Due to the inclusion of a 53rd week in fiscal 2012, there is a one-week calendar shift in the comparison of the twenty-six weeks ended September 29, 2013, to the thirty-nine weeks ended September 23, 2012. As a result, we calculate comparable restaurant sales by comparing sales in the thirty-nine weeks ended September 29, 2013 to sales in the corresponding thirty-nine week calendar period ended September 30, 2012. Comparable restaurant sales increased 2.5% for the thirty-nine week period ended September 29, 2013, compared to the thirty-nine week calendar period ended September 30, 2012. The increase in comparable restaurant sales was driven by a 2.0% increase in average check and a 0.5% increase in average weekly customers. Sales for the same restaurants in the thirty-nine week fiscal period ended September 29, 2013 increased 1.8% compared to the thirty-nine week fiscal period ended September 23, 2012. Our revenue mix attributed to bar sales decreased to 18.9% during the thirty-nine weeks ended September 29, 2013 from 19.6%, primarily as a result of lower bar sales as a percent of total revenue at certain new locations.

Cost of Sales. Cost of sales as a percentage of revenue increased to 27.4% during the thirty-nine weeks ended September 29, 2013, from 26.8% during the same period in 2012, primarily as a result of higher chicken and produce costs.

Labor Costs. Labor costs as a percentage of revenue remained constant at 32.0% during the thirty-nine weeks ended September 29, 2013, compared to the same period in 2012.

Operating Costs. Operating costs as a percentage of revenue increased to 14.2% during the thirty-nine weeks ended September 29, 2013 compared to 14.1% during the same period in 2012. This increase was primarily caused by increases in utility costs.

Occupancy Costs. Occupancy costs as a percentage of revenue remained constant at 6.0% during the thirty-nine weeks ended September 29, 2013 compared to the same period in 2012.

General and Administrative Expenses. General and administrative expenses increased $1.3 million, or 20.3%, to $7.7 million for the thirty-nine weeks ended September 29, 2013, as compared to $6.4 million during the same period in 2012. This increase was

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primarily driven by an increase in salary expense associated with additional employees as we continue to strengthen our infrastructure for future growth and additional payroll taxes due to the exercise of employee stock options. Additionally, this increase was the result of incremental costs associated with being a public company.

Advisory Agreement Termination Fee. On March 21, 2012, we paid a $2.0 million termination fee to terminate our advisory agreement with Goode Partners.

Secondary Offering Costs. During the thirty-nine week period ended September 29, 2013, we incurred $925,000 of offering expenses related to two secondary offerings of the Company's common stock that were completed in January 2013 and April 2013. All of the common stock sold in the offerings was sold by certain existing stockholders, and as a result, the Company did not receive any proceeds from these offerings.

Marketing Costs. As a percentage of revenue, marketing costs remained flat at approximately 0.8%.

Restaurant Pre-opening Costs. Restaurant pre-opening costs decreased $0.1 million, or 3.1% to $3.0 million for the thirty-nine weeks ended September 29, 2013, as compared to $2.9 million during the same period in 2012. Although there were 10 restaurants in development or opened during the thirty-nine week period ended September 29, 2013 compared to 9 restaurants in development or opened during the same period in 2012, pre-opening costs decreased in 2013 as a result of the timing of the development schedule and slightly lower pre-opening costs related to certain restaurants opened during the thirty-nine week period ended September 29, 2013 as compared to the same period in 2012.

Depreciation and Amortization. Depreciation and amortization as a percentage of revenue increased to 4.1% for the thirty-nine weeks ended September 29, 2013, as compared to 3.7% during the same period in 2012. This increase is primarily related to the increase in equipment and leasehold improvement costs related to new restaurant openings.

Interest Expense. Interest expense decreased $5.4 million for the thirty-nine weeks ended September 29, 2013, as compared to the thirty-nine weeks ended September 23, 2012. The decrease was primarily due to the $1.6 million write off of loan origination costs associated with the pay down of $79.4 million of borrowings with proceeds from the IPO during the comparable period in 2012. In addition, interest expense decreased due to decreased average outstanding borrowings under our senior secured credit facility during the thirty-nine weeks ended September 29, 2013 compared to the same period in 2012. Borrowings during the thirty-nine weeks ended September 29, 2013 averaged $4.8 million, while borrowings during the same period in 2012 averaged approximately $56.3 million. In addition, the average interest rate on our outstanding borrowings during the thirty-nine week period ended September 29, 2013 was 1.98% compared to 8.50% for the same period in 2012.

Income Tax Expense. For the thirty-nine weeks ended September 29, 2013, the effective tax rate was 28.2% as compared to 30.0% for the same period in September 23, 2012. The decrease in the effective income tax rate as compared to the same period in 2012 was primarily attributable to the favorable impact of a one time adjustment made for incremental employment tax credits for the current year as well as the previous open tax years, which resulted in a $556,000 net favorable impact in net income during the thirty-nine weeks ended September 29, 2013. The decrease in the effective income tax rate was partially offset by the unfavorable impact of the non-tax deductible secondary offering costs incurred during the current thirty-nine weeks ended September 29, 2013. The impact on the effective income tax rate for these items were treated discretely in this thirty-nine week period as required by the Financial Accounting Standards Board's Accounting Standards Codification. The effective income tax rate for 2013 excluding these discrete items is estimated to be approximately 30%. Additionally, due to the Company's net operating loss carry forwards the net favorable tax benefit related to employment tax credits will primarily be added to the general business credits deferred tax asset and will not be utilized to reduce taxes until the net operating loss carry forwards are completely utilized.

Net Income. As a result of the foregoing, net income increased $5.7 million, to $8.6 million for the thirty-nine weeks ended September 29, 2013 from $2.9 million during the same period in 2012. We had net income available to common stockholders of $8.6 million for the thirty-nine weeks ended September 29, 2013 as compared to net income available to common stockholders of $731,000 during the same period in 2012.

Liquidity

Our principal sources of cash are net cash provided by operating activities, which includes tenant improvement allowances from our landlords, and borrowings under our $25 million credit facility (the "Revolving Credit Facility"),

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

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Consistent with many other restaurant and retail chain store operations, we use operating lease arrangements for our restaurants. We believe that these operating lease arrangements provide appropriate leverage of our capital structure in a financially efficient manner. We have entered into operating leases with certain related parties with respect to six of our restaurants and our corporate headquarters as described in our Annual Report under the heading "Certain Relationships and Related Transactions, and Director Independence."

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

Cash Flows for Thirty-Nine Weeks Ended September 29, 2013 and September 23, 2012

The following table summarizes the statement of cash flows for the thirty-nine weeks ended September 29, 2013 and September 23, 2012 (in thousands):

	Thirty-Nine Weeks Ended	
	September 29, 2013	September 23, 2012
Net cash provided by operating activities	$17,981	$15,211
Net cash used in investing activities	(21,009)	(20,437)
Net cash provided by financing activities	396	5,960
Net increase (decrease) in cash and cash equivalents	(2,632)	734
Cash and cash equivalents at beginning of year	5,855	2,827
Cash and cash equivalents at end of period	$3,223	$3,561

Operating Activities. Net cash provided by operating activities increased $2.8 million to $18.0 million for the thirty-nine weeks ended September 29, 2013, from $15.2 million during the same period in 2012. 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 during the thirty-nine weeks ended September 29, 2013 compared to the same period in 2012 was primarily due to an increase in net income and depreciation and amortization as we continue our expansion as well as increased deferred tax liabilities as a result of timing differences. This increase was partially offset by a $1.6 million write-off of loan origination fees associated with the pay down of long term debt in 2012, a decrease in insurance accruals due to the advanced payment of certain premiums in 2013 and a decrease in the change in accrued compensation and related benefits.

Investing Activities. Net cash used in investing activities increased $0.6 million to $21.0 million for the thirty-nine weeks ended September 29, 2013, from $20.4 million for the thirty-nine weeks ended 2012. This increase was the result of an increase in capital expenditures of $0.6 million for the thirty-nine weeks ended September 29, 2013. These expenditures were primarily related to the construction of our seven new restaurants that opened during the thirty-nine weeks ended September 29, 2013, as well as expenditures related to three additional unopened restaurants currently under construction.

Financing Activities. Net cash provided by financing activities decreased $5.6 million to $0.4 million for the thirty-nine weeks ended September 29, 2013 from $6.0 million during the same period in 2012. This decrease was primarily the result of the simplification of our capital structure since our IPO in 2012 which included the conversion of all series A, B and X preferred stock into common stock and the refinancing of our debt into our new $25 million Revolving Credit Facility. Additionally, on March 21, 2012, prior to the IPO, we entered into an amendment to our previous credit facility and borrowed an additional $25.0 million under the Term A Loan facility, of which the proceeds were primarily used to repurchase $22.5 million of our common stock, series A preferred stock, series B preferred stock and series X preferred stock on April 6, 2012. On July 27, 2012, we received proceeds of $81.1 million from our IPO, which were used to repay approximately $79.4 million of our outstanding debt. Also, during that same period in 2012, we borrowed $4.5 million under our delayed draw Term B Loan and had net payments on our revolving credit facility of $2.7 million.

During the thirty-nine weeks ended September 29, 2013, we made net payments on our Revolving Credit Facility of $1.0 million and received proceeds from the exercise of stock options of $1.4 million.

As of September 29, 2013, we had no 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.

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Capital Resources

Long-Term Capital Requirements

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

The capital resources required for a new restaurant depend on whether the restaurant is a ground-up construction or a conversion. We estimate that each ground-up restaurant will require a total cash investment of $1.7 million to $2.5 million (net of estimated tenant improvement allowances of between zero and $0.8 million). We estimate that each conversion will require a total cash investment of $2.0 million to $2.2 million. In addition to the cost of the conversion or ground-up buildout, we expect to spend approximately $350,000 to $400,000 per restaurant for restaurant pre-opening costs. We target a cash-on-cash return beginning in the third operating year of 40.0%, and a sales to investment ratio of 2:1 for our new restaurants.

For 2013, we currently estimate capital expenditure outlays will range between $19.1 million and $21.2 million, net of agreed upon tenant improvement allowances and excluding approximately $3.3 million to $3.9 million of restaurant pre-opening costs for new restaurants that are not capitalized. Of the restaurant pre-opening costs that are not capitalized, we spent $3.0 million during the thirty-nine weeks ended September 29, 2013. These capital expenditure estimates are based on average new restaurant capital expenditures of $2.1 million (net of estimated tenant improvement allowances) each for the opening of nine new restaurants as well as $2.3 million to improve our existing restaurants and for general corporate purposes.

Based on our growth plans, we believe our combined expected cash flows from operations, available borrowings under our Revolving Credit Facility and expected tenant improvement allowances will be sufficient to finance our planned capital expenditures and other operating activities in fiscal 2013.

Short-Term Capital Requirements

Our operations have not required significant working capital and, like many restaurant companies, we operate with negative working capital. Restaurant sales are primarily paid for in cash or by credit card, and restaurant operations do not require significant inventories or receivables. In addition, we receive trade credit for the purchase of food, beverages and supplies, therefore reducing the need for incremental working capital to support growth. We had a net working capital deficit of $3.8 million at September 29, 2013, compared to a net working capital deficit of $2.7 million at December 30, 2012.

Revolving Credit Facility

On November 30, 2012, the Company entered into a $25.0 million Revolving Credit Facility with Wells Fargo Bank, National Association, which replaced the company's previous credit facility.

As of September 29, 2013, we had borrowings under our Revolving Credit Facility of $4.0 million, and the amount available for future borrowings was $21.0 million. The Revolving Credit Facility (a) will mature on November 30, 2017, unless the Company exercises its option to voluntarily reduce all of the commitment before the maturity date, (b) accrues commitment fees on the daily unused balance of the facility at an applicable margin, which varies based on the Company’s consolidated total lease adjusted leverage ratio and (c) provides for letters of credit in amounts totaling the lesser of $5.0 million or the available borrowings under our Revolving Credit Facility. All borrowings under the Revolving Credit Facility bear interest at a variable rate based upon the Company’s election, of (i) the base rate (which is the highest of the prime rate, federal funds rate plus 0.50% or one month LIBOR) plus 1%, or (ii) LIBOR, plus, in either case, an applicable margin based on the Company’s consolidated total lease adjusted leverage ratio. Interest is due at the end of each quarter if the Company selects to pay interest based on the base rate and at the end of each LIBOR period if it selects to pay interest based on LIBOR. We have elected a variable rate of interest based on LIBOR. As of September 29, 2013, this interest rate was 1.94%.

Our Revolving Credit Facility requires us to comply with certain financial tests, including a maximum consolidated total lease adjusted leverage ratio and a minimum consolidated fixed charge ratio. In addition, our Revolving Credit Facility contains other customary negative covenants limiting, among other things, additional indebtedness; additional

liens; investments; mergers, acquisitions and consolidations; the sale of assets and stock; the declaration or payment of dividends, except subsidiaries may declare and pay a dividend to us; affiliate transactions; accounting changes; organizational document changes; further negative pledges; other restrictive agreements; and changes to the nature of our business. Our Revolving Credit Facility also contains customary events of default.

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As of September 29, 2013, we were in compliance with all covenants under our Revolving Credit Facility. Based on our capital expenditure plans, contractual commitments and cash flow from operations, we expect to be able to comply with these covenants in the near and long term.

Contractual Obligations

There have been no material changes to our contractual obligations from what was previously reported in our Annual Report.

Off-Balance Sheet Arrangements

As of September 29, 2013, we had no off balance sheet arrangements or transactions.

Significant Accounting Policies

There have been no material changes to the significant accounting policies from what was previously reported in our Annual Report.

Recent Accounting Pronouncements

We reviewed all significant newly-issued accounting pronouncements and concluded that they either are not applicable to our operations or that no material effect is expected on our consolidated financial statements as a result of future adoption.

Cautionary Statement Concerning Forward-Looking Statements

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

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