Voyager Learning CO
Form 10-K
August 31, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number 1-3246

Voyager Learning Company

(Exact name of registrant as specified in its charter)

Delaware	**36-3580106**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S.Employer Identification No.)**
777 Eisenhower Parkway, Ann Arbor, Michigan	**48106-1346**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant s telephone number, including area code: (734) 761-4700

ProQuest Company

(Former name or former address, if changed since last report)

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

Title of each class	**Name of each exchange on which registered**

common stock, $.001 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Company is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the Company is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant is a large accelerated filer. An accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated Filer ¨ Non-accelerated filer ¨

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

The aggregate market value of the Registrant s voting stock held by non-affiliates (based upon the per share closing price of $32.76 July 2, 2005) was approximately $850 million.

The number of shares of the Registrant s common stock, $.001 par value, outstanding as of August 15, 2007 was 29,894,561.

Documents Incorporated By Reference: None

EXPLANATORY NOTE

Through this Annual Report on Form 10-K, Voyager Learning Company and Subsidiaries (collectively the Company) is restating its Consolidated Financial Statements for fiscal years 2003 and 2004 and for the first three quarters of 2005 (the Restatement). This Form 10-K also reflects the restatement of Selected Consolidated Financial Data for the fiscal years ended 2001 and 2002. Adjustments related to periods prior to 2001 have been made to retained earnings. The determination to restate these financial statements was made on February 8, 2006 by the Audit Committee of the Company s Board of Directors after discussions with KPMG LLP, the Company s independent registered public accounting firm. The Audit Committee promptly initiated an investigation (the Audit Committee Investigation) which examined, among other things, the Company s policies and practices for purchase accounting, lease accounting, posting of manual journal entries, accounting for commissions, accounting for royalties paid and received, accounting for deferred revenue, and capitalization of costs incurred for internal software and product masters. Further information on the findings of the investigation and related remedial measures taken, or to be taken, can be found in Item 9A, Controls and Procedures.

During the review and investigation of these items, the Company determined that certain other adjustments to correct errors in accounting and to reclassify certain expense items in the Statement of Operations were required to the Company s Consolidated Financial Statements. Further information on these adjustments and reclassifications can be found in Item 6, Selected Financial Data , and in Note 2, Restatement of Financial Statements , to our Consolidated Financial Statements included herein.

The Company has not amended and does not intend to amend its previously filed Annual Reports on Form 10-K or its Quarterly Reports on Form 10-Q for the periods affected by the Restatement that ended prior to December 31, 2005. For this reason, the Consolidated Financial Statements, auditors reports and related financial information for the affected periods contained in such reports should no longer be relied upon.

As a result of a series of acquisitions and divestitures since 2005, our business has materially changed. See Note 24, Subsequent Events , to our Consolidated Financial Statements included herein for further information.

Part I

Voyager Learning Company

Item 1. Business.

Unless otherwise expressly indicated in this Item 1, the discussions set forth herein are as of December 31, 2005.

Restatement of Financial Statements

On February 9, 2006 the Company announced that during a review related to its internal controls assessment required by the Sarbanes-Oxley Act of 2002, the Company discovered material irregularities in its accounting. The Audit Committee promptly initiated an investigation and retained Skadden, Arps, Slate, Meagher & Flom LLP, who in turn retained Chicago Partners LLC to assist in the investigation of the irregularities.

In August 2006, the Company announced that the Audit Committee had completed the Audit Committee Investigation. The Company s financial statements for fiscal years 2003 and 2004 included in this Form 10-K have been restated to reflect adjustments to previously reported information on Form 10-K. This Form 10-K also reflects the restatement of Selected Consolidated Financial Data for the fiscal years ended 2001 and 2002. Further information on these adjustments and reclassifications can be found in Note 2 to our Consolidated Financial Statements included herein.

Voyager Learning Company Business Overview

Voyager Learning Company has been a leading publisher of solutions for the education, automotive and power equipment markets. We have more than 50 years of experience in information, content development, and aggregation. Our predecessor company, Bell & Howell Company, was incorporated in Delaware in 1907. In 2001, we sold our legacy Imaging, Mail and Messaging Technologies and finance-related businesses and changed our name to ProQuest Company. On January 31, 2005, we completed the acquisition of Voyager Expanded Learning, Inc. (Voyager) in support of our long-term strategy to grow our educational business for grades K-12. On October 28, 2005, we sold our periodical microfilm operation to National Archive Publishing Company (NAPC) for $21.9 million after purchase price adjustments for working capital. In November 2006, we sold our ProQuest Business Solutions businesses to Snap-on Incorporated for $508 million, subject to adjustments including changes in working capital, and the assumption of approximately $19 million of debt in the form of monetized future billings. In February 2007, we sold our ProQuest Information and Learning Company businesses for $222.3 million, subject to a reduction in purchase price for assumed liabilities of approximately $4 million and a working capital adjustment. On June 30, 2007 ProQuest Company amended Article I of its Certificate of Incorporation solely to change the corporate name from ProQuest Company to Voyager Learning Company . The name change and amendment were completed pursuant to Section 253(b) of the Delaware General Corporation Law through a merger of the Company s wholly-owned subsidiary, Voyager Learning Company, with and into the Company.

Prior to 2005, we reported our results in two business segments: ProQuest Information and Learning (PQIL), and ProQuest Business Solutions (PQBS). As a result of the Voyager acquisition completed on January 31, 2005, we report our results for 2005 and in subsequent periods in three business segments: ProQuest Education (PQED), PQIL (which was sold in February 2007), and PQBS (which was sold in November 2006). Financial information for each of our business segments and operations by geographic area is contained in Note 3 to the Consolidated Financial Statements which is incorporated herein by reference. An overview of the three business segments follows.

See Note 24 to the Consolidated Financial Statements included herein for events subsequent to December 31, 2005.

ProQuest Education (PQED) Segment Overview

The PQED segment is primarily comprised of three product lines: Reading programs, Math and Science programs, and Professional Development programs. Voyager is a leading provider of results-driven, in-school core reading programs, reading and math intervention programs, and professional development programs for school districts throughout the United States (U.S.). We have deployed our research-based learning systems in more than 1,000 school districts nationwide, resulting in improved student performance. We offer a comprehensive core reading system for grades K-3, a reading intervention solution for grades K-9 and a math intervention solution for grades 3-8. Also, we deliver state wide and district wide, research-based professional development for grades K-6 teachers in reading.

Our reading products include a K-3 core reading program entitled the Universal Literacy System , as well as reading intervention programs, Voyager Passport and Pasaporte , that address the lowest quartile performers through a proprietary system designed with the goal that every child should achieve literacy. Voyager U offers professional development for teachers, literacy coaches and administrators. New products introduced in 2005 include Voyager Passport Reading Journeys , a reading intervention program for grades 7-9, and Vmath , a math intervention system for grades 3-8. In 2006, we added grade 6 to the Voyager Passport Reading Journeys product and in January 2007 we added an online math capability for grades 3-8.

In 2005, we served nearly 725,000 children among an estimated 20 million struggling students in urban, suburban and rural schools nationwide. Our customers consisted of more than 1,000 school districts in 46 states. We sell products to many of the largest school districts around the country, including Miami, Los Angeles, Baltimore, Clark County (Las Vegas), Houston, and Dallas. Our sales force also sells Voyager solutions on a statewide basis. Statewide initiatives in 2005 included

New York, North Carolina, Oklahoma, Arizona, New Mexico, Tennessee, Alabama, Massachusetts and Indiana. In 2005, the state of California added the California Voyager Passport reading intervention program to the state adopted list for struggling readers in grades 4-8.

In 2005, our products were present in approximately 8% of the school districts in the United States. Our customers generally sign contracts or purchase orders which provide reading, math and intervention materials and services for a school year. In subsequent school years, customers generally need to purchase new student materials but are not required to purchase teacher materials or implementation services. In 2005, PQED generated approximately 89.3% of sales from Reading Programs, 4.7% of sales from Professional Development Programs, 1.8% of sales from Math and Science Programs, and 4.2% from other products. In 2005, PQED represented approximately 16.7% of our total sales.

Product Review PQED

Reading Programs

Our reading products include a K-3 core reading program entitled the Universal Literacy System , as well as reading intervention products Voyager Passport and Pasaporte , that address the lowest quartile performers through a proprietary system designed with the goal that every child should achieve literacy. New products introduced in 2005 include Voyager Passport Reading Journeys , a reading intervention product for grades 7-9.

PQED also sells separate reading products primarily through the internet. LearningPage consists of four free web sites (LearningPage, Sites for Teachers, Sites for Parents, and Spanish), which aid in driving interested parents, teachers, schools and districts to its subscription-based sites: Reading A-Z, RAZ-kids, Reading Vocabulary and Reading-Tutors.

LearningPage s flagship product, Reading A-Z (www.readinga-z.com), offers thousands of printable teacher materials to teach guided reading, phonemic awareness, reading comprehension, reading fluency, alphabetic principle, and vocabulary. The teaching resources include professionally developed downloadable leveled books, lesson plans, worksheets, and reading assessments.

RAZ-Kids (www.RAZ-kids.com) is an online collection of interactive leveled books and quizzes designed to guide and motivate emergent and reluctant readers, as well as improve the skills of fluent readers. The program consists of 90 online books, along with quizzes and worksheets. The website also features a management system for teachers to build rosters, assign books, and review student reading activity.

Reading-tutors (www.reading-tutors.com) is a low-cost, easy-to-use collection of research-based resource packets for tutors. Each of the 400 packets contains items tutors need to help emergent readers gain key literacy skills in the following areas: alphabet, phonological awareness, phonics, high-frequency words, fluency and comprehension.

Math and Science Programs

VMath is an intensive math intervention system for struggling students in grades 3-8 based on the same research principles of effective instructional practices that guided development of Voyager Passport. The product includes daily explicit, systematic instruction of essential math concepts, skills and strategies. The program focuses on mastering key math skills and concepts with which students most often struggle and includes a technology-based error analysis. Students and teachers are informed by pre- and post-tests and progress monitoring in each of 10 modules. VMath was first implemented in late 2005. In January 2007 we added an online math capability for grades 3-8.

ExploreLearning supplies online simulations in math and science. ExploreLearning grew out of National Science Foundation (NSF) funding and supports the tenets of both NSF and the National Council of Teachers of Mathematics (NCTM). It is correlated to both state standards and over 90 math and science textbooks. Like LearningPage, ExploreLearning is a 100% subscription-based business.

Professional Development Programs

VoyagerU (VU) is a professional development program delivered to K-12 teachers in collaboration with states and school districts. It provides consistent educational practices across schools and meets the requirements of the No Child Left Behind Act and Reading First. Seven states, including New York, North Carolina, Oklahoma, Massachusetts, Arizona, New Mexico and Indiana, presently have statewide contracts to provide VU Reading Academy professional development involving over 10,000 teachers. Participants earn college credit and hours toward professional development requirements. VU has been demonstrated through dependent evaluation to improve teacher instruction and student reading performance.

ProQuest Information and Learning (PQIL) Segment Overview

In February 2007, we sold PQIL for $222.3 million, subject to adjustments including a reduction in purchase price for assumed liabilities of approximately $4 million and a working capital adjustment. See Note 24 to our Consolidated Financial Statements included herein.

PQIL converts information contained in periodicals, newspapers, dissertations, out-of-print books and other scholarly material into easily accessible forms such as microform, online databases, and print-on-demand.

In 2005, PQIL generated 48.9% of sales from published products, 20.0% of sales from general reference products, 27.6% of sales from traditional products, and 3.5% of sales from classroom products. In 2005, PQIL represented approximately 49.7% of our total sales.

ProQuest Business Solutions (PQBS) Segment Overview

In November 2006, we sold PQBS to Snap-on Incorporated for $508 million, subject to adjustments including changes in working capital, and the assumption of approximately $19 million of debt in the form of monetized future billings.

PQBS primarily develops and sells parts and service information and dealer performance applications in the automotive and power equipment markets. PQBS also provides automobile Original Equipment Manufacturers (OEMs) and their dealerships with management information systems that monitor and evaluate dealer performance in areas such as product inventory, pricing, territory, margins and Original Equipment Manufacturer (OEM) support. In 2005, PQBS generated 94.6% of sales from automotive products, 4.6% of sales from power equipment electronic products, and 0.8% of sales from other products. In 2005, PQBS represented approximately 33.6% of our total sales.

OEConnection (OEC) is a joint venture among PQBS, General Motors, Ford Motor Company, and DaimlerChrysler that was sold with PQBS to Snap-On in November 2006.

<u>*Business Development*</u>.

Research and Development (R&D). We continually seek to take advantage of new product and technology opportunities and view product development to be essential to maintaining and growing our market position. As of December 31, 2005, we had approximately 49 people at PQED in R&D, 168 people at PQIL in R&D, and approximately 200 people at PQBS in R&D on our research and development and software engineering staffs. PQED develops its products using a combination of internal employees and outside resources such as university professors and research experts. We generally refresh our products every three years to incorporate the latest research and update factual content. Our research and development expenditures at PQIL and PQBS include expenses primarily for database development and information delivery systems and is primarily company sponsored.

Sales & Marketing. PQED, PQIL and PQBS employ separate sales forces both domestically and internationally.

As of December 31, 2005, our PQED sales force consisted of 43 field sales representatives and 61 inside sales representatives for a total of 104 direct salespeople excluding sales management and marketing. We currently segment the marketing and sales force for PQED based on customer size. All sales producers sell all product lines and are generalist relationship managers. They are supported by corporate and regional subject matter experts.

As of December 31, 2005, within our PQIL North American sales force, we had dedicated sales representatives for each major product type: traditional (13 salespeople), published and general reference (69 salespeople), and K-12 (24 salespeople), for a total of 106 salespeople. Outside of the U.S. and Canada, we used a direct international sales force comprised of 61 sales representatives who sell the full portfolio of products to markets across the globe. We augmented this direct sales force with third party international distributors.

As of December 31, 2005, within our PQBS sales force, we sold automotive and power equipment products both domestically and internationally through an internal sales force of 91 salespeople. We marketed our products and services to two targeted groups: OEMs and individual dealership locations. We also utilized the services of Reynolds and Reynolds as a distributor to supplement the efforts of our direct sales force.

Proprietary Rights

We regard certain of our technologies and content as proprietary and rely primarily on a combination of patent, copyright, trademark and trade secret laws, and employee non-disclosure agreements to protect our rights. There can be no assurance that the steps we have taken will be adequate to protect our rights. Although we do not believe that we have infringed on the proprietary rights of third parties, there is no assurance that a third party will not make a contrary claim. The cost of responding to such an assertion may be material, whether or not the assertion is valid.

We also license from third parties certain technology upon which we rely to deliver our products and services to our customers. This technology may not continue to be available to us on commercially reasonable terms or at all. Moreover, we may face claims from persons who claim that their licensed technologies infringe upon or violate those persons proprietary rights. These types of claims, regardless of the outcome, may be costly to defend and may divert our management s efforts and resources.

In PQED, we derive the majority of our curriculum content through in-house development efforts. Curriculum developed in house or developed through the use of independent contractors is the proprietary property of PQED. The curriculum developed might be augmented or complimented with third party products, which may include video or photographs. This third party content may be sourced from various providers who retain the appropriate trademarks and copyright to the material and agree to our use on a nonexclusive, fee-based arrangement.

ProQuest®, Voyager Expanded Learning®, VoyagerU , Voyager Universal Literacy System®, TimeWarpPlus, Voyager Passport, Voyager *Pasaporte*, VMath, Voyager Passport Reading Journeys, Reading A-Z, LearningPage, ExploreLearning, SIRS®, ABI/INFORM®, Serial Solutions®, and eLibrary® are our trademarks. Each trademark, trade name, or service mark of any other company appearing in this Annual Report on Form 10-K belongs to its holder.

Seasonality

Our quarterly operating results fluctuate due to a number of factors including the academic school year, sales cycle, the amount and timing of new products, and our spending patterns. In addition, our customers experience cyclical funding issues that can impact our revenue patterns. Historically, we have experienced our lowest net sales, earnings and cash flow in the first and second quarters with our highest sales and earnings in the third and fourth quarters.

Competition

The market for our products and services is highly competitive. In our PQED segment, we compete with Scholastic, SRA/McGraw-Hill, Hampton-Brown, Scientific Learning Corp., Soar to Success, Cambium Learning, Harcourt Achieve which is a division of Reed Elsevier, Scott Foresman which is a division of Pearson, and Houghton Mifflin which is part of Riverdeep.

Many of our current and potential future competitors may have substantially greater financial resources, name recognition, experience, and larger customer bases than we do. Accordingly, our competitors may be able to respond more quickly to new technologies and changes in customer requirements, have more favorable access to suppliers and devote greater resources to the development and sale of their products. Any of the above results could adversely affect our ability to attract and retain customers and harm our business.

Government Regulations

We are subject to various federal, state, local, and foreign environmental laws and regulations limiting the discharge, storage, handling, and disposal of a variety of substances. Our operations are also governed by laws and regulations relating to equal employment opportunity, workplace safety, and worker health, including the Occupational Safety and Health Act and regulations hereunder. We believe that we are in compliance in all material respects with applicable laws and regulations and that future compliance will not have a material adverse effect upon our consolidated operations or financial condition.

Due to the increasing usage of the Internet, federal and state governments may adopt laws or regulations regarding commercial online services, the Internet, user privacy, intellectual property rights, content regulation, and taxation. Laws and regulations directly applicable to online commerce or Internet communications are becoming more prevalent and could expose us to substantial liability. For example, certain U.S. laws, such as the federal Digital Millennium Copyright Act and various federal laws aimed at protecting children and limiting the content made available to them, could expose us to substantial liability. Furthermore, various proposals at the federal, state, and local level could impose additional taxes on Internet sales. These laws, regulations, and proposals could decrease Internet commerce and other Internet uses and adversely affect the success of our online products.

Concentration Risk

We are not dependent upon any one customer or a few customers, the loss of which would have a material adverse effect on our business. In fiscal 2005, no single customer represented more than 10% of our consolidated net sales. For our PQED segment, no one customer represented more than 10% of net sales in 2005 on an annual basis. The top five PQED customers accounted for approximately 26% of PQED net sales in 2005.

Employees

Our future success is substantially dependent on the performance of our management team and our ability to attract and retain qualified technical and managerial personnel.

As of December 31, 2005, we had the following number of employees, broken out by segment:

	Employees
PQED	344
PQIL	1,188
PQBS	843
Corporate	44
Total	2,419

None of our employees are represented by collective bargaining agreements.

Website Access to Company Reports

We make available free of charge through our website, *www.voyagercompany.com*, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practical after such material is electronically filed with the Securities and Exchange Commission (SEC).

We are providing the address to our website solely for the information of our investors. Our website and the information contained therein or incorporated therein are not intended to be incorporated into this Annual Report on Form 10-K.

Code of Ethics

In March 2003, we adopted a code of ethics for all of our employees in finance, including our Chief Financial Officer and our Chief Executive Officer. A copy of this code of ethics is set forth on our website, *www.voyagercompany.com.* We adopted this code to promote such standards as (1) honest and ethical conduct; (2) full, fair, accurate, timely and understandable disclosure in our periodic reports; and (3) compliance with applicable governmental rules and regulations.

Also, in January 2004, we implemented a whistleblower hotline, as required under the Sarbanes-Oxley Act of 2002, by engaging a third party service that provides anonymous reporting for serious workplace ethical issues via phone and/or the Internet.

Item 1A. Risk Factors.

This section should be read in conjunction with the Consolidated Financial Statements of the Company and the notes thereto included in this Annual Report for the year ended December 31, 2005.

The following risk factors are as of the date of this report and are not necessarily risk factors as of the December 31, 2005 financial statements.

Safe Harbor for Forward-looking Statements.

Except for the historical information and discussions contained herein, statements contained in this document may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements involve a number of risks, uncertainties and other factors, which could cause actual results to differ materially. In some cases, you can identify forward-looking statements by terminology such as may , should , expects , plans , anticipates , believes , estimates , predicts , potential , continue , projects , i priorities , or the negative of such terms or similar terminology. These factors may cause our actual results to differ from any forward-looking statements. We undertake no obligation to update any of our forward-looking statements. In addition to risk factors otherwise set forth in this Annual Report on Form 10-K, factors that could cause actual results to differ materially from the Company s forward-looking statements include, but are not limited to, the following:

Our sales and profitability depend on our ability to continue to develop new products that appeal to customers and end users.

We compete in markets characterized by continual technological change, product introductions and enhancements, changes in customer demands and evolving industry standards. The technological and curriculum life cycles of our products are difficult to estimate. The demand for some of our more mature products and services has begun to migrate to other products and services. To remain competitive, we must continue to develop new products and invest in existing products to keep them relevant in the market place.

Changes in funding for public schools could cause the demand for our products to decrease.

We derive a significant portion of our revenues from public schools, which are heavily dependent on federal, state, and local government funding. In addition, the school appropriations process is often slow, unpredictable and subject to many factors outside of our control. Curtailments, delays, changes in leadership, shifts in priorities, or general reductions in funding could delay or reduce our revenues. Funding difficulties experienced by schools could also cause those institutions to be more resistant to price increases and could slow investments in educational products which could harm our business.

The Company s business may be adversely affected by changes in state educational funding as a result of changes in legislation, both at the federal and state level, changes in the state procurement process and changes in the condition of the local, state or U.S. economy. While in the past few years the availability of state and federal funding for elementary and high school education has improved due to legislative mandates such as No Child Left Behind (NCLB) and Reading First, future changes in the state and local tax base could create an unfavorable environment, leading to state budget issues resulting in a decrease in educational funding.

We face intense competition and may not be able to successfully attract and retain customers.

The market for our products and services is highly competitive. In our PQED segment, we compete with Scholastic, SRA/McGraw-Hill, Hampton-Brown, Scientific Learning Corp., Soar to Success, Cambium Learning, Harcourt Achieve which is a division of Reed Elsevier, Scott Foresman which is a division of Pearson, and Houghton Mifflin which is part of Riverdeep. Many of our current and potential future competitors may have substantially greater financial resources, name recognition, experience, and larger customer bases than we do. Accordingly, our competitors may be able to respond more quickly to new technologies and changes in customer requirements, have more favorable access to suppliers and devote greater resources to the development and sale of their products. Any of the above results could adversely affect our ability to attract and retain customers and harm our business.

Our intellectual property protection may be inadequate, allowing others to use our technologies and thereby reduce our ability to compete.

We regard certain of the technology underlying our services and products as proprietary, such as our search and retrieval and database management features. The steps that we take to protect our proprietary technology may be inadequate to prevent misappropriation of our technology, or to prevent third parties from developing similar technology independently. We rely on a combination of trademark, copyright and trade secret laws, employee and third-party nondisclosure agreements and other contracts to establish and protect our technology and other intellectual property rights.

Our products could infringe on the intellectual property of others, which may cause us to engage in costly litigation and could cause us to pay substantial damages and prohibit us from selling our products.

Third parties may assert infringement or other intellectual property claims against us based on their intellectual property rights. If such claims are successful, we may have to pay substantial damages, possibly including treble damages, for past infringement. We might also be prohibited from selling our products or providing certain content without first obtaining a license from the third party, which, if available at all, may require us to pay additional royalties. Even if infringement claims against us are without merit, defending a lawsuit takes significant time, may be expensive, and may divert management attention from other business concerns.

Our success depends on our ability to attract and retain key personnel, and our key personnel, especially those holding multiple positions, may not be able to fulfill their roles effectively if we become understaffed.

Our success depends on our ability to attract and retain highly qualified management, creative, and technical personnel. Members of our senior management team bring substantial industry and management experience to our planning and execution. If they or other key employees were to leave us, and we were unable to find a qualified replacement, our business could be harmed.

We could experience system failures, software errors or capacity constraints, any of which would cause interruptions in our delivery of electronic content to customers and ultimately may cause us to lose customers.

Any delays or failures in the systems or errors in the software that we use for the technology based component of our products which include assessment and reporting tools would harm our business. We have occasionally suffered failures of the computer and telecommunication systems that we use to deliver our electronic content to customers. The growth of our customer base, as well as the number of sites we provide, may strain our systems in the future. The systems we currently use to deliver our services to customers (except for external telecommunications systems) are located in our facilities in Dallas, Texas, Charlottesville, Virginia and Tucson, Arizona. Although we maintain property insurance, claims for any system failure could exceed our coverage. In addition, our products could be affected by failures of third party technology used in our products, and we could have no control over remedying these failures. Any failures or problems with our systems or software could force us to incur significant costs to remedy the failure or problem, decrease customer demand for our products, tarnish our reputation and thus harm our business.

Our systems face security risks, and our customers have concerns about their privacy.

Our systems and websites may be vulnerable to unauthorized access by hackers, computer viruses and other disruptive problems. Any security breaches or problems could lead to misappropriation of our customers information, our websites, our intellectual property and other rights, as well as disruption in the use of our systems and websites. Unauthorized access to, as well as denial of, various Internet and online services has occurred, and will likely occur again. Any security breach related to our websites could tarnish our reputation and expose us to damages and litigation. We may also incur significant costs to maintain our security precautions or to correct problems caused by security breaches. Further, to maintain these security measures, we will be required to monitor our customers access to our websites which may cause disruption to our customers use of our systems and websites. These disruptions and interruptions could harm our business.

Unless we maintain a strong brand identity, our business may not grow as anticipated.

We believe that maintaining and enhancing our brands is important to attracting and retaining customers. Our success in growing brand awareness will depend in part on our ability to continually provide information access technology that enhances the learning process. Some of these entities may offer goods and services similar to those offered by us, which may diminish the value of our brand. In addition, some of our brand names are new or have changed, and we may not have any success in maintaining and growing our brand equity.

Our operating results continue to fluctuate, and a revenue or earnings shortfall in a particular quarter could have a negative impact on the price of our common stock.

Variations in our operating results occur from time to time as a result of many factors, such as the timing and amount of customers expenditures, our product mix, new product introductions, and general economic conditions. Our sales cycles are relatively long and depend on factors such as the size of customer orders and the terms of subscription agreements. Consequently, it is difficult to predict if and when we will receive a customer order. Because a high percentage of our expenses are fixed, the timing of customer orders can cause variations in quarterly operating results. Certain customers buying patterns and funding availability generally cause our sales and cash flow to be higher in the third and fourth quarters of the year. As a result of the difficulty in forecasting our quarterly revenues, our operating results for a quarter may fall below securities analysts expectations, which may cause the price of our common stock to fall abruptly and significantly.

Our stock price may be volatile, and your investment in our stock could decline in value.

Our common stock price has fluctuated significantly in the recent past. In addition, market prices for securities of companies in our industries have been highly volatile and may continue to be highly volatile in the future. Often the volatility in our common stock price is unrelated to our operating performance. As a result of these fluctuations in the price of our common stock, you may not be able to sell your common stock at or above the price you pay for it.

On March 28, 2007, the New York Stock Exchange (NYSE) suspended the trading of the Company s securities and, thereafter, the common stock of the Company began being quoted on the Pink Sheets Electronic Quotation Service under the ticker symbol PQES.PK. On July 2, 2007, consistent with its corporate name change, the Company began being quoted on the Pink Sheets Electronic Quotation Service under the ticker symbol VLCY.PK.

We are a party to a number of matters of civil litigation that could have a material adverse effect on our financial results.

The Company is involved in legal actions and claims arising in the ordinary course of business. In addition, the Company may face exposure from parties claiming damages as a result of the litigation that has occurred as a result of the restatement. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding could have a material effect on the Company s financial position and results of operations.

The Company has identified numerous material weaknesses in its internal control over financial reporting.

In connection with the Company s internal controls assessment required by the Sarbanes-Oxley Act of 2002, which led to the discovery of several material irregularities in its accounting, the Company has identified a number of control deficiencies in its internal control over financial reporting. Many of these control deficiencies have been classified as material weaknesses or significant deficiencies that in the aggregate constitute material weaknesses. A material weakness is a control deficiency that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by employees in the normal course of their assigned functions. Based on the material weaknesses identified, management concluded that our internal control over financial reporting was not effective as of December 31, 2005. Since we have not fully remediated all of the factors that caused the material weaknesses, some internal controls may continue to be ineffective in future periods.

As of the end of the period covered in this Form 10-K, management performed an evaluation of the effectiveness of the Company s disclosure controls and procedures. Disclosure controls and procedures are designed to ensure that information required to be disclosed in the Company s periodic reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management to allow timely decisions regarding disclosures. Based on the evaluation and the identification of the material weaknesses in internal control over financial reporting described above, as well as the Company s inability to file this Form 10-K within the statutory time period, management concluded that the Company s disclosure controls and procedures were not effective as of December 31, 2005.

As of the filing of this Form 10-K, the Company has implemented changes in its internal control over financial reporting to remediate certain but not all of the identified control deficiencies. The Company s continuing remediation efforts are subject to its internal control assessment, testing and evaluation processes. While these efforts continue, the Company will rely on additional substantive procedures and other measures as needed to assist it with meeting the objectives otherwise fulfilled by an effective control environment. There can be no assurance that the Company s internal control over financial reporting or its disclosure controls and procedures will prevent future error or fraud in connection with its financial statements. See Item 9A. Controls and Procedures for additional information.

The Company expects to continue to incur significant expenses related to its internal control over financial reporting and the preparation of its financial statements.

The Company has devoted substantial internal and external resources to the restatement of its financial statements and related matters. As a result of these efforts, along with efforts to complete its assessment of internal control over financial reporting as of December 31, 2005, as required by Section 404 of the Sarbanes-Oxley Act of 2002, the Company expects that it will incur significant incremental fees and expenses for additional auditor services, financial and other consulting services, legal services. While the Company does not expect fees and expenses relating to the preparation of its financial results for future periods to remain at this level, the Company expects that these fees and expenses will remain significantly higher than historical fees and expenses in this category for the next year. These expenses, as well as the substantial time devoted by the Company s management towards addressing these weaknesses, could have a material and adverse effect on the Company s financial condition, results of operations, and cash flows.

Our ability to report our financial results on a timely basis in the future could be adversely affected by our weaknesses in internal controls.

If we are unable to substantially improve our internal controls, our ability to report our financial results on a timely and accurate basis will continue to be adversely affected. Our ability to access the capital markets is also subject to our timely filing of periodic reports with the SEC, and our recent failure to file certain reports on a timely basis limits our ability to access the capital markets using a short-form registration.

Any adverse outcome of the investigation currently being conducted by the SEC could have a material adverse impact on us, on the trading prices of our securities, and on our ability to access the capital markets.

We are cooperating with the investigation currently being conducted by the SEC. We cannot currently predict the outcome of this investigation, which could be material. Nor can we predict whether any additional investigation(s) will be commenced or, if so, the impact or outcome of any such additional investigation(s). Until this existing investigation and any additional investigations that may arise in connection with the historical conduct of the business are resolved, the trading prices of our securities may be adversely affected, and it may be more difficult for us to raise additional capital or incur indebtedness or other obligations. If an unfavorable result occurs in any such investigation, we could be required to pay civil and/or criminal fines or penalties, or be subjected to other types of sanctions, which could have a material adverse effect on our operations. The trading prices for our securities or our ability to access the capital markets and our business and financial condition could be further materially adversely affected.

The impact of ongoing purported securities class action, derivative and insurance-related litigation may be material. We are also subject to the risk of additional litigation and regulatory action in connection with the restatement of our Consolidated Financial Statements. The potential liability from any such litigation or regulatory action could adversely affect our business.

In connection with the restatements of our Consolidated Financial Statements described herein, we and certain of our former and current officers and directors have been named as defendants in a number of lawsuits, including purported class action and stockholder derivative suits. We cannot currently predict the impact or outcome of these litigations, which could be material. The continuation and outcome of these lawsuits and related ongoing investigations, as well as the initiation of similar suits and investigations, may have a material adverse impact on our results of operations and financial condition.

As a result of the restatements of our Consolidated Financial Statements described herein, we could become subject to additional purported class action, derivative or other securities litigation. As of the date hereof, we are not aware of any additional litigation or investigation having been commenced against us related to these matters, but we cannot predict whether any such litigation or regulatory investigation will be commenced or, if it is, the outcome of any such litigation or investigation. The initiation of any additional securities litigation or investigations, together with the lawsuits and investigations described above, may also harm our business and financial condition.

Until the existing litigation and regulatory investigations, any additional litigation or regulatory investigation, and any claims or issues that may arise in connection with the historical conduct of the business are resolved, it may be more difficult for us to raise additional capital or incur indebtedness or other obligations. If an unfavorable result occurred in any such action, our business and financial condition could be further adversely affected.

We could experience a material adverse result if our insurance coverage is insufficient to cover losses that may occur as a result of the litigation.

The Company has received a reservation of rights notice from its insurance carriers regarding coverage under the Directors and Officers liability insurance policies. If an adverse judgment is rendered or a settlement is reached in excess of the insurance coverage limits, the Company may experience a material adverse impact on its financial condition.

For a further description of the nature and status of these legal proceedings, see Item 3 Legal Proceedings.

Item 1B. Unresolved Staff Comments.

The information set forth in Item 3 of this report regarding SEC proceedings is incorporated herein by reference.

Item 2. Properties.

Our principal executive and administrative office is located in Ann Arbor, Michigan. The following table provides certain summary information in square feet with respect to the facilities that we own or lease in connection with our businesses as of December 31, 2005:

	PQED	PQIL	PQBS	Corporate	Total
Owned			90,944		90,944
Leased	157,244	283,112	171,678	14,238	626,272
Total	157,244	283,112	262,622	14,238	717,216

We lease facilities primarily in the U.S., Canada, and the United Kingdom (U.K.). We believe that the termination of any one of the leases, some of which are long-term, would not significantly affect our operations. The only facility we owned as of December 31, 2005 was sold as part of the sale of PQBS in November 2006.

The Company announced plans after the sale of PQBS and PQIL to transition all of its corporate functions from its Ann Arbor headquarters to Dallas during 2007. The Company anticipates that the office space currently leased by PQED will be sufficient for its operations once the transition is complete and that the office space it leases in Ann Arbor will be surplus to its needs.

We believe the buildings and equipment used in our operations (whether owned or leased) generally to be in good condition and adequate for our current needs and that additional space will be available as needed.

Item 3. Legal Proceedings.

Putative Securities Class Actions

Between February and April 2006, four putative securities class actions, now consolidated and designated *In re ProQuest Company Securities Litigation,* were filed in the United States District Court for the Eastern District of Michigan against the Company and certain of its former and then-current officers and directors. Each of these substantially similar lawsuits alleged that the defendants violated Sections 10(b) and/or 20(a) of the Securities Exchange Act of 1934, as amended (the Exchange Act), as well as the associated Rule 10b-5, in connection with the Company s proposed restatement.

On May 2, 2006, the Court ordered the four cases consolidated and appointed lead plaintiffs and lead plaintiffs counsel. By stipulation of the parties, the consolidated lawsuit was stayed pending restatement of the Company s financial statements. Lead Plaintiffs subsequently asked the Court to lift the stay of proceedings to enable them to file a Consolidated Complaint, which they did on July 17, 2006. Defendants filed motions for sanctions under Federal Rule of Civil Procedure 11 and to dismiss the Consolidated Complaint on October 13 and 16, 2006, respectively. Rather than respond to these motions, Lead Plaintiffs moved to reinstate the stay of proceedings, which was granted. On December 4, 2006, the Court again lifted the stay of proceedings and ordered Lead Plaintiffs to either respond to the previously filed motions to dismiss and for sanctions, or to file an Amended Consolidated Complaint. On January 24, 2007, Lead Plaintiffs filed their Amended Consolidated Complaint, which defendants moved to dismiss on March 15, 2007. The briefing on the motion to dismiss is complete. The stay of discovery mandated by the Private Securities Litigation Reform Act remains in effect. It is not yet possible to determine the ultimate outcome of these actions. The Company intends to defend itself vigorously.

Stockholder Derivative Lawsuits

On April 18, 2006, a stockholder derivative lawsuit was filed in the United States District Court for the Eastern District of Michigan, purportedly on behalf of the Company against certain current and former officers and directors of the Company by one of the Company s stockholders, John H. Fringer. This lawsuit asserts claims for breaches of fiduciary duty, abuse of control, gross mismanagement, constructive fraud, and unjust enrichment. On June 5, 2006, Hon. Avern Cohn entered a stipulated Order staying the litigation pending completion of the Company s restatement and special litigation committee investigation and consolidating any future derivative actions filed in the Eastern District of Michigan with the current action.

On December 19, 2006, a second stockholder derivative lawsuit was filed in the United States District Court for the Eastern District of Michigan by another of the Company s stockholders, John A. Bricker, Jr. The action purports to bring claims on behalf of the Company against the same defendants named in the *Fringer* action as well as certain other current and former officers and directors of the Company and one of its subsidiaries. The *Bricker* complaint purports to assert claims for disgorgement under the Sarbanes-Oxley Act of 2002, violation of Exchange Act Section 10(b) as well as the associated Rule 10b-5, abuse of control, gross mismanagement, corporate waste, unjust enrichment, rescission, and constructive trust. The action has been transferred to Hon. Avern Cohn and, pursuant to the stipulated Order in the *Fringer* action, consolidated with *Fringer* and stayed pending completion of the Company s restatement and special litigation committee investigation. Plaintiffs have requested restitution and disgorgement of bonuses, and trading proceeds under Sarbanes-Oxley Act of 2002, as well as other unspecified monetary damages. It is not yet possible to determine the ultimate outcome of this action.

Securities and Exchange Commission Investigation

In February 2006, the Division of Enforcement of the SEC commenced an informal inquiry regarding the Company s announcement of a possible restatement. In April 2006, the Division of Enforcement of the SEC commenced a formal, non-public investigation in connection with the Company s restatement. The Company continues to cooperate in the ongoing SEC investigation. It is not yet possible to determine the ultimate outcome of this investigation.

Employee Retirement Income Security Act (ERISA) Action

On May 22, 2006, a former employee and participant in the Company s 401(k) Defined Contribution Plan filed a lawsuit in the United States District Court for the Eastern District of Michigan challenging the inclusion of Company Stock as an investment option for participants to select. The action purports to represent a class of all similarly-situated plan participants and names the Company, as well as numerous officers and directors, as defendants. The Company moved to dismiss the lawsuit on November 30, 2006, on the grounds that the plaintiff has no standing to bring this action and that it fails to state a legal claim. On April 23, 2007, the court granted the Company s motion to dismiss.

Data Driven Software Corporation vs. Voyager Expanded Learning et al.

Voyager is a defendant in an arbitration styled:

No. 71 117 Y 00238 06; *Data Driven Software Corporation*

f/k/a Edsoft Software Corporation v. Voyager Expanded

Learning, Inc.; Emery Randolph Best; Jeri A. Nowakowski;

Matthew Peter Hunter; Stephan Randal Black; Dallas,

Texas

This case relates to claims by Edsoft Software Corporation, now known as Data Driven Software Corporation (Edsoft or Claimant), that Voyager violated a consulting agreement in connection with misappropriation of ideas and trade secrets, as well as ownership of intellectual property. In this arbitration they claim that Voyager committed these acts in relationship to a patent known as the 413 Patent, which it secured from the United States Patent Office. The claims also involve alleged breaches of contract, declaratory judgment action for ownership of the Patent and/or other methods and software from programs of Voyager. The Claimant seeks monetary damages from Voyager for lost profits and against certain individuals for unjust enrichment. The arbitration is currently set for hearing on September 10, 2007 in Dallas, Texas. At this time it is not possible to determine the ultimate outcome of this case, although Voyager is vigorously defending the case.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of Shareholders during the fourth quarter of our fiscal year ended December 31, 2005.

Part II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

On March 28, 2007, the NYSE suspended the trading of the Company s securities and, thereafter, the common stock of the Company began being quoted on the Pink Sheets Electronic Quotation Service under the ticker symbol PQES.PK. On July 2, 2007, consistent with its Corporate name change, the Company began being quoted on the Pink Sheets Electronic Quotation Service under the ticker symbol VLCY.PK.

As of August 15, 2007, there were 797 holders of record of our common stock.

The high and low closing prices of our common stock on the NYSE were as follows:

	2005		2004	
Fiscal Quarter	**High**	**Low**	**High**	**Low**
First	$ 36.77	$ 28.09	$ 32.39	$ 28.48
Second	37.89	31.00	31.73	25.12
Third	36.67	32.89	27.00	24.17
Fourth	36.79	27.76	32.11	24.74

	2007		2006	
Fiscal Quarter	**High**	**Low**	**High**	**Low**
First	$ 12.14	$ 8.23	$ 29.75	$ 20.97
Second	10.36	8.32	22.46	10.66
Third			13.57	11.20
Fourth			14.20	9.26

We made no share repurchases during the quarter ended December 31, 2005.

We have not declared or paid any cash dividends to our shareholders. We have no plans to declare or pay cash dividends in the near future. Any future determination to pay dividends will be at the discretion of our Board of Directors.

Item 6. Selected Financial Data.

The following selected consolidated financial and operating data have been derived from our Consolidated Financial Statements as of the end of and for each of the fiscal years in the five-year period ended December 31, 2005. Fiscal years 2001 to 2004 have been restated to reflect adjustments and reclassifications to information previously reported on Form 10-K. You should read Management s Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated

Financial Statements and the accompanying notes included elsewhere herein. Our historical financial data will not be indicative of our future performance as a result of recent divestitures. Further information on these adjustments and reclassifications can be found in Note 2 to our Consolidated Financial Statements included herein.

See Note 24 to our Consolidated Financial Statements included herein for events subsequent to December 31, 2005.

(Dollars in thousands, except per share data)	**2005** [4]	**2004 (Restated)**	**Fiscal 2003 (Restated)**	**2002 (Restated)**	**2001 (Restated)**
Continuing Operations Data: [1] [2]					
Net sales	$ 545,913	$ 439,644	$ 433,508	$ 398,316	$ 364,901
Cost of sales	(274,513)	(225,884)	(217,734)	(187,533)	(174,952)
Gross profit	271,400	213,760	215,774	210,783	189,949
Research and development expense	(29,573)	(24,656)	(26,322)	(27,255)	(24,149)
Selling and administrative expense	(214,679)	(158,583)	(149,687)	(125,063)	(125,899)
Other income			775	(1)	1
Goodwill and long-lived assset impairment [3]	(557)	(180,503)			
Gain (loss) on sales of assets	2,315	900		(118)	(4,052)
Earnings (loss) from continuing operations before interest, income taxes, and equity in earnings of affiliate	28,906	(149,082)	40,540	58,346	35,850
Net interest expense	(33,017)	(17,112)	(17,918)	(31,347)	(36,922)
Income tax (expense) benefit [5]	(10,702)	(28,692)	(7,602)	(15,409)	4,204
Equity in earnings (loss) of affiliate (less applicable income taxes of $186, $335, $274, $0 and $0, respectively)	320	573	443		(13,374)
Earnings (loss) from continuing operations	$ (14,493)	$ (194,313)	$ 15,463	$ 11,590	$ (10,242)
Diluted earnings (loss) from continuing operations per common share	$ (0.49)	$ (6.81)	$ 0.54	$ 0.44	$ (0.43)

	At the End of Fiscal				
(Dollars in thousands)	2005 (4)	2004 (Restated)	2003 (Restated)	2002 (Restated)	2001 (Restated)
Balance Sheet Data:					
Cash and cash equivalents	$ 30,957	$ 4,313	$ 3,809	$ 1,980	$ 495
Total assets	917,114	535,968	715,390	628,399	628,416
Long-term debt, less current maturities	11,317	164,487	204,040	194,667	264,445
Total debt (6)	534,025	179,735	214,836	201,611	270,920
Total shareholders equity (deficit)	(52,690)	(51,073)	116,911	79,283	(73,860)

Footnotes to the Selected Financial Data:

(1) In June 2004, we sold our Dealer Management System (DMS) business, which was a component of PQBS. In fiscal 2001, we completed the divestiture of our Imaging, Mail and Messaging Technologies, and finance-related businesses. Accordingly, the operating results of these businesses have been segregated from our continuing operations, and are separately reported as discontinued operations in our Consolidated Financial Statements.

(2) The restatement reduced earnings from continuing operations for 2004 by $247.0 million; 2003 by $31.2 million; 2002 by $28.3 million; and 2001 by $21.1 million. In addition, net expense adjustments for periods prior to 2001 totaling $8.1 million have been recorded to the beginning balance of retained earnings for 2001.

(3) The magnitude of the decline in earnings as a result of the financial restatement lead us to re-perform the annual impairment testing of goodwill. As a result of this testing, we have determined that we experienced goodwill impairment for the PQIL business unit in 2004. See Note 8 to our Consolidated Financial Statements included herein for further details. As a result of the sale of assets to NAPC and the manufacturing agreement with NAPC, we recorded an impairment on long-lived assets in 2005 related to a portion of capitalized software that would no longer be utilized. See Note 4 to our Consolidated Financial Statements included herein for further details.

(4) On January 31, 2005, we acquired all the outstanding ownership interest in Voyager Expanded Learning, Inc. The results of Voyager s operations subsequent to the acquisition on January 31, 2005 are included in our Consolidated Financial Statements.

(5) Tax expense in 2004 reflects an increase in deferred tax expense of $25.1 million to reflect the impact of a reassessment of valuation allowances against deferred tax assets as a result of restatement adjustments.

(6) Upon closing on the sale of PQBS on November 28, 2006, we made a pro-rata payment of 89% of the principal then outstanding under our 2002 Notes, our 2005 Notes and our Credit Agreement. Upon closing on the sale of PQIL on February 9, 2007, we paid our remaining balances owed to our bank lenders and Noteholders and were released from all obligations under the 2002 Note Purchase Agreement, the 2005 Note Purchase Agreement, and the Credit Agreement.

A summary of the restatement adjustments by selected financial data line item is as follows:

	Fiscal			
(Dollars in thousands, except per share data)	**2004 Summary of Adjustments**	**2003 Summary of Adjustments**	**2002 Summary of Adjustments**	**2001 Summary of Adjustments**
Continuing Operations Data:				
Net sales increase (decrease)	$ (23,170)	$ (17,507)	$ (14,510)	$ (21,148)
Cost of sales (increase) decrease	4,431	4,226	9,051	5,991
Gross profit increase (decrease)	(18,739)	(13,281)	(5,459)	(15,157)
Research and development expense (increase) decrease	(8,053)	(7,955)	(6,310)	(4,645)
Selling and administrative expense (increase) decrease	(37,991)	(27,436)	(15,052)	(6,398)
Other Income (loss)			(1)	1
Goodwill impairment (increase) decrease	(180,503)			
Gain (loss) on sales of assets			(118)	(1,740)
Earnings (loss) from continuing operations before interest, income taxes, and equity in earnings of affiliate	(245,286)	(48,672)	(26,940)	(27,939)
Net interest expense (benefit)	(677)	(779)	(2,425)	(12,248)
Income tax expense (benefit)	(1,653)	17,761	1,040	19,068
Equity in earnings (loss) of affiliate (less applicable income taxes of $335, $274, $0 and $0, respectively)	573	443		
Earnings (loss) from continuing operations	$ (247,043)	$ (31,247)	$ (28,325)	$ (21,119)
Diluted earnings (loss) from continuing operations per common share	$ (8.64)	$ (1.10)	$ (1.06)	$ (0.88)

	At the End of Fiscal			
(Dollars in thousands)	**2004 Summary of Adjustments**	**2003 Summary of Adjustments**	**2002 Summary of Adjustments**	**2001 Summary of Adjustments**
Balance Sheet Data:				
Cash and cash equivalents	$	$ (214)	$ 198	$
Total assets	(216,961)	(8,646)	(3,118)	22,049
Long-term debt, less current maturities	14,487	13,040	7,667	11,663
Total debt	24,735	23,836	14,611	17,846
Total shareholders equity (deficit)	(320,794)	(70,489)	(50,473)	(28,788)

A summary of the restatement adjustments by category for 2001 and 2002 is presented below. See Note 2 to our Consolidated Financial Statements included herein for fiscal year 2003 and 2004.

Effect of the Restatement on each line in the Consolidated Statements of Operations:

(in thousands)

	Acquisition purchase price adjust- ments	Commission expense adjust- ments	Royalty sales adjust- ments	Net Sales adjust- ments	Royalty expense adjust- ments	Accounts receivable adjust- ments	Lease transaction adjust- ments	Foreign subsidiary adjust- ments	Capitalized cost adjust- ments	Manual journal entry adjust- ments		Miscell accr adju men
6 $	(4,169)	$	$ (779)	$ (5,398)	$	$ 181	$	$ (651)	$	$ (3,694)		$
4)	(472)			141	(6,633)		2,531	2,124	2,365	3,374		(
2	(4,641)		(779)	(5,257)	(6,633)	181	2,531	1,473	2,365	(320)		(
5)	(3)							(2)	(6,305)			
1)	(3,458)	(490)	456	(753)			(639)	(2,010)	(3,857)	(577)		6
								(1)				
									(118)			
6	(8,102)	(490)	(323)	(6,010)	(6,633)	181	1,892	(540)	(7,915)	(897)		6
1				321				16			ing-left:2px;padding-top:2px;padding-bottom:2px;padding-right:2px;"> Deferred gift card revenue	1,2

1,274

$14,874

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. Subsequent events

Subsequent to March 27, 2016, the Company opened three new restaurants for a total of seventy-four restaurants, in fifteen 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 subsidiary

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 27, 2015 (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 March 27, 2016, we operated 71 Chuy’s restaurants across fifteen states.

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

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

Our Growth Strategies and Outlook

Our growth is based primarily on the following strategies:

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

As of March 27, 2016, we opened two restaurants year-to-date and opened three additional restaurants subsequent to March 27, 2016. 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

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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 54 and 44 restaurants at March 27, 2016 and March 29, 2015, 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	
	March 27, 2016	March 29, 2015
Total restaurants (at end of period)	71	62
Total comparable restaurants (at end of period)	54	44
Average unit volumes (in thousands)	$1,150	$1,178
Change in comparable restaurant sales	3.2 %	1.9 %
Average check	$14.40	$14.08

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 2016 and 2015 fiscal years each consist of 52 weeks.

Key Financial Definitions

Revenue. Revenue primarily consists of food and beverage sales and also includes sales of our merchandise. 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.
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 changes in gas prices. In the past, we have experienced significant variability in restaurant pre-opening costs from quarter to quarter primarily due to the timing of restaurant openings. We typically incur restaurant pre-opening costs in the five months preceding a new restaurant opening. In addition, our experience to date has been that labor and direct operating costs associated with a newly opened restaurant during the first several months of operation are often materially greater than what will be expected after that time, both in aggregate dollars and as a percentage of restaurant sales. Accordingly, the number and timing of new restaurant openings in any quarter has had, and is expected to continue to have, a significant impact on quarterly restaurant pre-opening costs, labor and direct operating costs.

Our business 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 March 27, 2016 Compared to Thirteen Weeks Ended March 29, 2015

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

	Thirteen Weeks Ended					
	March 27, 2016	% of Revenue	March 29, 2015	% of Revenue	$ Change	% Change
Revenue	$78,054	100.0 %	$66,829	100.0 %	$11,225	16.8 %
Costs and expenses:						
Cost of sales	19,998	25.6 %	17,544	26.3 %	2,454	14.0 %
Labor	25,680	32.9 %	22,146	33.1 %	3,534	16.0 %
Operating	10,556	13.5 %	9,331	14.0 %	1,225	13.1 %
Occupancy	5,305	6.8 %	4,480	6.7 %	825	18.4 %
General and administrative	4,533	5.8 %	4,084	6.1 %	449	11.0 %
Marketing	583	0.8 %	535	0.8 %	48	9.0 %
Restaurant pre-opening	1,433	1.8 %	1,108	1.7 %	325	29.3 %
Depreciation and amortization	3,477	4.5 %	2,998	4.4 %	479	16.0 %
Total costs and expenses	71,565	91.7 %	62,226	93.1 %	9,339	15.0 %
Income from operations	6,489	8.3 %	4,603	6.9 %	1,886	41.0 %
Interest expense, net	15	— %	47	0.1 %	(32)	(68.1)%
Income before income taxes	6,474	8.3 %	4,556	6.8 %	1,918	42.1 %
Income tax expense	1,942	2.5 %	1,321	2.0 %	621	47.0 %
Net income	$4,532	5.8 %	$3,235	4.8 %	$1,297	40.1 %

Revenue. Revenue increased $11.2 million, or 16.8%, to $78.1 million for the thirteen weeks ended March 27, 2016 from $66.8 million for the comparable period in 2015. This increase was primarily driven by $10.0 million in incremental revenue from an additional 122 operating weeks provided by 12 new restaurants opened during and subsequent to the thirteen weeks ended March 29, 2015 and increased revenue at our comparable restaurants. These increases were partially offset by a decrease in revenue related to our non-comparable restaurants that are not included in the incremental revenue discussed above. Revenue for these non-

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comparable restaurants is historically lower as the stores transition out of the 'honeymoon' period that follows a restaurant's initial opening.

Comparable restaurant sales increased 3.2% for the thirteen weeks ended March 27, 2016 compared to the thirteen weeks ended March 29, 2015. The increase in comparable restaurant sales was driven primarily by a 2.1% increase in average check and a 1.1% increase in average weekly customers. Our revenue mix attributed to bar sales was 18.1% during the thirteen weeks ended March 27, 2016 compared to 18.0% during the comparable period in 2015.

Cost of Sales. Cost of sales as a percentage of revenue decreased to 25.6% during the thirteen weeks ended March 27, 2016 from 26.3% during the comparable period in 2015. This decrease is the result of decreases in grocery, dairy and chicken costs, partially offset by increases in produce costs.

Labor Costs. Labor costs as a percentage of revenue decreased to 32.9% during the thirteen weeks ended March 27, 2016 from 33.1% during the comparable period in 2015, primarily as a result of efficiencies gained from internal initiatives, including labor scheduling best practices and manager staffing based on volume as well as leverage from increased sales. The implementation of these initiatives started during the first quarter of 2015 and were not fully implemented until the second quarter of 2015.

Operating Costs. Operating costs as a percentage of revenue decreased to 13.5% during the thirteen weeks ended March 27, 2016 from 14.0% during the comparable period in 2015, primarily due to decreased utility costs of approximately 20 basis points and a decrease in insurance costs of 30 basis points.

Occupancy Costs. Occupancy costs as a percentage of revenue increased to 6.8% during the thirteen weeks ended March 27, 2016 from 6.7% during the comparable period in 2015, primarily as a result of higher rental expense and property taxes at certain of our newly opened restaurants partially offset by our existing locations due to leveraging rent costs on sales growth.

General and Administrative Expenses. General and administrative expenses increased $0.4 million to $4.5 million for the thirteen weeks ended March 27, 2016 compared to $4.1 million during the comparable period in 2015. This increase was primarily driven by an increase in management salaries, equity compensation and performance-based bonuses due to additional headcount to support our growth.

Marketing Costs. As a percentage of revenue marketing costs remained flat at 0.8% during the thirteen weeks ended March 27, 2016 compared to the same period in 2015, primarily due to leverage from increased sales.

Restaurant Pre-opening Costs. Restaurant pre-opening costs increased $0.3 million to $1.4 million during the thirteen weeks ended March 27, 2016 compared to $1.1 million during the same period in 2015. This increase is primarily the result of differences in the timing of our development schedule. In 2016, we incurred pre-opening costs for two new restaurants that opened during the first quarter and seven restaurants that will open in the second quarter of 2016 or later. In 2015, we incurred pre-opening costs for three restaurants that opened in the first quarter and for five restaurants that opened in the second quarter of 2015 or later.

Depreciation and Amortization. Depreciation and amortization costs increased $0.5 million to $3.5 million during the thirteen weeks ended March 27, 2016 from $3.0 million during the comparable period in 2015, primarily as the result of an increase in equipment and leasehold improvement costs associated with our new restaurants.

Interest Expense. Interest expense as a percentage of revenue remained flat during the thirteen weeks ended March 27, 2016. There were no borrowings as of March 27, 2016.

Income Tax Expense. For the thirteen weeks ended March 27, 2016 our effective tax rate increased to approximately 30.0% from approximately 29.0% during the comparable period in 2015. This increase is due to higher pre-tax income levels and the Company's federal statutory tax rate increasing from 34% to 35% in the third quarter of 2015. The effective tax rates differ from the statutory rates primarily due to normal recurring tax credits attributable to employment taxes paid on employee tips.

Net Income. As a result of the foregoing, net income increased 40.1% to $4.5 million during the thirteen weeks ended March 27, 2016 from $3.2 million during the comparable period in 2015.

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 Revolving Credit Facility which we entered into on November 30, 2012 and amended on October 30, 2015. 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 at least 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.

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 Thirteen Weeks Ended March 27, 2016 and March 29, 2015

The following table summarizes the statement of cash flows for the thirteen weeks ended March 27, 2016 and March 29, 2015 (in thousands):

	Thirteen Weeks Ended	
	March 27, 2016	March 29, 2015
Net cash provided by operating activities	$4,681	$8,553
Net cash used in investing activities	(8,336)	(5,370)
Net cash used in financing activities	(50)	(219)
Net (decrease) increase in cash and cash equivalents	(3,705)	2,964
Cash and cash equivalents at beginning of year	8,529	3,815
Cash and cash equivalents at end of period	$4,824	$6,779

Operating Activities. Net cash provided by operating activities decreased $3.9 million to $4.7 million for the thirteen weeks ended March 27, 2016, from $8.6 million during the comparable period in 2015. Our business is almost exclusively a cash business. Almost all of our receipts come in the form of cash and cash equivalents and a large majority of our expenditures are paid within a 30 day period. The decrease in net cash provided by operating activities was primarily due to net decreases from changes in operating assets and liabilities of $5.8 million, partially offset by an increase in net income of $1.3 million and net increases in other non-cash reconciling items of $0.6 million, primarily related to increases in depreciation and amortization as a result of our continued expansion. The decrease from changes in operating activities was primarily due to decreases in prepaid expenses and other current assets, decreases in accrued liabilities and deferred rent, decreases in deferred lease incentives and decreases in accounts payable due to timing differences and our continued growth.

Investing Activities. Net cash used in investing activities increased $3.0 million to $8.3 million for the thirteen weeks ended March 27, 2016, from $5.4 million during the comparable period in 2015. This increase was the result of the timing of our construction schedule and the related construction payments associated with our two new restaurants that opened during the thirteen weeks ended March 27, 2016, as well as expenditures related to five additional unopened restaurants currently under construction as compared to three new restaurants opened and three additional restaurants under construction during the comparable period in 2015.

Financing Activities. Net cash used in financing activities was $0.1 million for the thirteen weeks ended March 27, 2016 compared to $0.2 million during the comparable period in 2015. During the thirteen weeks ended March 27, 2016 we incurred $0.3 million related to the indirect repurchase of shares for minimum tax withholdings, partially offset by an excess tax benefit from stock-based compensation and proceeds from the exercise of stock options of $0.2 million.

As of March 27, 2016, we lease six of our restaurant locations and our corporate office from entities owned by our founders. We had no other financing transactions, arrangements or other relationships with any unconsolidated affiliates or related parties. Additionally, we had no financing arrangements involving synthetic leases or trading activities involving commodity contracts.

Capital Resources

Long-Term Capital Requirements

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

The capital resources 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 $1.8 million to $2.4 million (net of estimated tenant incentives of between zero and $1.0 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 $400,000

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to $450,000 per restaurant for restaurant pre-opening costs. We currently target a cash-on-cash return beginning in the third operating year of 30.0%, and a sales to investment ratio of 1.9:1 for our new restaurants.

For 2016, we currently estimate capital expenditure outlays will range between $33.0 million and $38.0 million, net of agreed upon tenant improvement allowances and excluding approximately $5.0 million to $5.9 million of restaurant pre-opening costs for new restaurants that are not capitalized. We spent $1.4 million on pre-opening costs during the thirteen weeks ended March 27, 2016. These estimates are based on average new restaurant capital expenditures of $2.3 million (net of estimated tenant improvement allowances) for the opening of 11 to 13 new restaurants as well as $5.0 million to maintain and remodel 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 2016.

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 $6.6 million at March 27, 2016 compared to $7.8 million at December 27, 2015.

Revolving Credit Facility

On November 30, 2012, we entered into our $25.0 million Revolving Credit Facility with Wells Fargo Bank, National Association. On October 30, 2015, we entered into an amendment to our 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. As of March 27, 2016 we had no outstanding indebtedness under our Revolving Credit Facility.

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

Borrowings under the Revolving Credit Facility generally bear interest at a variable rate based upon our election, of (i) the base rate (which is the highest of prime rate, federal funds rate plus 0.5% or one month LIBOR plus 1.0%), or (ii) LIBOR, plus, in either case, an applicable margin based on our consolidated total lease adjusted leverage ratio (as defined in the Revolving Credit Facility agreement). Our Revolving Credit Facility also requires payment for commitment fees that accrue on the daily unused commitment of the lender at the applicable margin, which varies based on our consolidated total lease adjusted leverage ratio. In addition, the Revolving Credit Facility requires compliance with a fixed charge coverage ratio, a lease adjusted leverage ratio and certain non-financial covenants as well as 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 does not exceed 3.50 to 1.00.

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

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 March 27, 2016, we are not involved in any variable interest entities transactions and do not otherwise have any off-balance sheet arrangements.

Significant Accounting Policies

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

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Recent Accounting Pronouncements

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

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;
- changes in economic conditions;
- damage to our reputation or lack of acceptance of our brand in existing or new markets;
- our expansion into markets that we are unfamiliar with;
- economic and other trends and developments, including adverse weather conditions, in the local or regional areas in which our restaurants are located and specifically in Texas where a large percentage of our restaurants are located;
- the impact of negative economic factors, including the availability of credit, on our landlords and surrounding tenants;
- changes in food availability and costs;
- labor shortages and increases in our labor costs, including as a result of changes in government regulation, such as the adoption of the new federal health care legislation;
- food safety and food borne illness concerns;
- increased competition in the restaurant industry and the segments in which we compete;
- the impact of legislation and regulations regarding nutritional information, and new information or attitudes regarding diet and health or adverse opinions about the health of consuming our menu offerings;
- the impact of federal, state and local beer, liquor and food service regulations;
- the impact of litigation;
- the success of our marketing programs;
- the impact of new restaurant openings, including the effect on our existing restaurants when opening new restaurants in the same markets;
- the loss of key members of our management team;
- strain on our infrastructure and resources caused by our growth;
- the inadequacy of our insurance coverage and fluctuating insurance requirements and costs;
- the impact of our indebtedness on our ability to invest in the ongoing needs of our business;
- our ability to obtain debt or other financing on favorable terms or at all;
- the impact of a potential requirement to record asset impairment charges in the future;
- the impact of security breaches of confidential customer information in connection with our electronic processing of credit and debit card transactions;
- inadequate protection of our intellectual property;
- the failure of our information technology system or the breach of our network security;
- a major natural or man-made disaster;
- our increased costs and obligations as a result of being a public company;
- the impact of electing to take advantage of certain exemptions applicable to emerging growth companies;
- the failure of our internal control over financial reporting;
- the impact of federal, state and local tax laws;

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- volatility in the price of our common stock;
- the impact of future sales of our common stock and the exercise of stock options and any additional capital raised by us through the sale of our common stock;
- the impact of a downgrade of our shares by securities analysts or industry analysts, the publication of negative research or reports, or lack of publication of reports about our business;
- the effect of anti-takeover provisions in our charter documents and under Delaware law;
- the effect of our decision to not pay dividends for the foreseeable future;
- the effect of changes in accounting principles applicable to us;
- our ability to raise capital in the future; and
- the conflicts of interest that may arise with some of our directors.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report and in our Annual Report. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may differ materially from what we anticipate. Any forward-looking statements you read in this report reflect our views as of the date of this report with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We assume no obligation to provide revisions to any forward-looking statements should circumstances change, except as may be required by law.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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Part II—Other Information
Item 1. Legal Proceedings
Occasionally, we are a party to various legal actions arising in the ordinary course of our business including claims resulting from "slip and fall" accidents, employment related claims and claims from customers or employees alleging illness, injury or other food quality, health or operational concerns. None of these types of litigation, most of which are covered by insurance, has had a material effect on us in the past. As of the date of this report, we are not a party to any material pending legal proceedings and are not aware of any claims that could have a materially adverse effect on our financial position, results of operations or cash flows.
Item 1A. Risk Factors
There have been no material changes from the risk factors previously disclosed in our most recent Annual Report filed with the Securities and Exchange Commission.
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
The table below provides information with respect to our purchase of shares of our common stock during the three months ended March 27, 2016:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share
December 27, 2015, through January 24, 2016	—	$ —
January 24, 2016, through February 21, 2016	—	—
February 21, 2016 through March 27, 2016	8,443	34.55
Total	8,443	$ 34.55

(1) To satisfy tax withholding obligations associated with the vesting of restricted stock units during the first quarter of 2016, we withheld a total of 8,443 shares that are included in the total number of shares purchased column above.
Item 3. Defaults Upon Senior Securities
None.
Item 4. Mine Safety Disclosures
None.
Item 5. Other Information
None.
Item 6. Exhibits
See Exhibit Index following the signature page of this report.

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SIGNATURES

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

Date: May 5, 2016

CHUY'S HOLDINGS, INC.

By: /s/ Steven J. Hislop
Name: Steven J. Hislop
Title: President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jon W. Howie
Name: Jon W. Howie
Title: Vice President and Chief Financial Officer
(Principal Financial Officer)

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Exhibit Index

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