

Del Frisco's Restaurant Group, Inc.
Form 10-Q
October 09, 2013
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 3, 2013

OR

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

For the transition period from _____ to _____

Commission File Number 001-35611

Del Frisco's Restaurant Group, Inc.

(Exact name of registrant as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	20-8453116 (I.R.S. Employer Identification No.)
930 S. Kimball Ave., Suite 100, Southlake, TX (Address of principal executive offices)	76092 (Zip code)

(817) 601-3421

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

As of October 8, 2013, the latest practicable date, 23,814,692 shares of the registrant's common stock, \$0.001 par value per share, were issued and outstanding.

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PART I

FINANCIAL INFORMATION

Item 1. Financial Statements

DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Dollars in thousands)

	September 3, 2013 (unaudited)	December 25, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,711	\$ 10,763
Restricted cash	215	215
Inventory	12,555	12,103
Income taxes receivable	1,993	—
Deferred income taxes	2,672	2,067
Lease incentives receivable	2,205	3,092
Prepaid expenses and other	3,259	4,758
Total current assets	31,610	32,998
Property and equipment, net	115,786	105,568
Goodwill	75,365	75,365
Intangible assets, net	36,343	36,391
Deferred compensation plan investments	9,591	7,802
Other assets	268	261
Total assets	\$ 268,963	\$ 258,385
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 4,974	\$ 8,804
Accrued payroll	4,331	6,262
Accrued self-insurance	1,799	1,662
Deferred revenue	8,017	10,314
Income taxes payable	—	1,768
Other current liabilities	4,042	4,943
Total current liabilities	23,163	33,753

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Long-term debt	—	—
Deferred rent obligations	24,385	22,644
Deferred tax liabilities	14,823	10,792
Other liabilities	14,507	13,295
Total liabilities	76,878	80,484
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding at December 25, 2012 or September 3, 2013 (unaudited)	—	—
Common stock, \$0.001 par value, 190,000,000 shares authorized, 23,794,667 and 23,811,692 shares issued and outstanding at December 25, 2012, and September 3, 2013 (unaudited), respectively	24	24
Additional paid in capital	126,174	119,610
Retained earnings	65,887	58,267
Accumulated other comprehensive income	—	—
Total stockholders' equity	192,085	177,901
Total liabilities and stockholders' equity	\$ 268,963	\$ 258,385

See notes to condensed consolidated financial statements.

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DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)—Unaudited

(Dollars in thousands, except per share data)

	12 Weeks Ended		36 Weeks Ended	
	September 3, 2013	September 4, 2012	September 3, 2013	September 4, 2012
Revenues	\$ 54,183	\$ 47,887	\$ 174,345	\$ 151,565
Costs and expenses:				
Costs of sales	16,187	14,526	52,721	46,489
Restaurant operating expenses	25,693	22,167	79,147	65,945
Marketing and advertising costs	1,336	1,127	3,592	3,133
Pre-opening costs	835	1,129	1,754	2,031
General and administrative costs	4,174	3,292	12,112	8,692
Management and accounting fees paid to related party	—	56	—	1,252
Asset advisory agreement termination fee	—	3,000	—	3,000
Secondary public offering costs	381	—	793	—
Public offering transaction bonuses	3,705	1,462	5,510	1,462
Depreciation and amortization	2,631	2,051	7,637	5,622
Operating income (loss)	(759)	(923)	11,079	13,939
Other income (expense), net:				
Interest expense	(8)	(619)	(56)	(2,847)
Write-off of debt issuance costs	—	(1,649)	—	(1,649)
Other	(56)	(14)	(56)	51
Income (loss) from continuing operations before income taxes	(823)	(3,205)	10,967	9,494
Income tax expense (benefit)	(443)	(1,411)	3,347	2,762
Income (loss) from continuing operations	\$ (380)	\$ (1,794)	\$ 7,620	\$ 6,732
Discontinued operations, net of income tax benefit	—	(628)	—	(543)
Net income (loss)	\$ (380)	\$ (2,422)	\$ 7,620	\$ 6,189
Basic income (loss) per common share:				
Continuing operations	\$ (0.02)	\$ (0.09)	\$ 0.32	\$ 0.36
Discontinued operations	0.00	(0.03)	0.00	(0.03)
Basic income (loss) per share	\$ (0.02)	\$ (0.12)	\$ 0.32	\$ 0.33
Diluted income (loss) per common share:				
Continuing operations	\$ (0.02)	\$ (0.09)	\$ 0.32	\$ 0.36
Discontinued operations	0.00	(0.03)	0.00	(0.03)
Diluted income (loss) per share	\$ (0.02)	\$ (0.12)	\$ 0.32	\$ 0.33

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Shares used in computing net income (loss) per
common share:

Basic	23,801,335	20,825,619	23,796,890	18,938,318
Diluted	23,937,488	20,825,619	23,848,946	18,938,318
Comprehensive income (loss)	\$ (380)	\$ (2,422)	\$ 7,620	\$ 6,189

See notes to condensed consolidated financial statements.

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DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Changes in Stockholders' Equity—Unaudited

(Dollars in thousands)

	Common Stock		Additional	Retained	Accumulated	
	Shares	Value	Paid	Earnings	Other	
	Par		In Captial		Comprehensive	Total
Balance at December 27, 2011	17,994,667	\$ 18	\$ 51,341	\$ 44,513	\$ —	\$ 95,872
Comprehensive income	—	—	—	6,189	—	6,189
Share-based compensation costs	—	—	103	—	—	103
Issuance of common stock for initial public offering net of fees and issuance costs	5,800,000	6	66,453	—	—	66,459
Contribution by majority shareholder (see Note 5)	—	—	1,440	—	—	1,440
Balance at September 4, 2012	23,794,667	\$ 24	\$ 119,337	\$ 50,702	\$ —	\$ 170,063
Balance at December 25, 2012	23,794,667	\$ 24	\$ 119,610	\$ 58,267	\$ —	\$ 177,901
Comprehensive income	—	—	—	7,620	—	7,620
Share-based compensation costs	—	—	871	—	—	871
Stock option exercises, including tax effects	17,025	—	262	—	—	262
Contribution by majority shareholder (see Note 5)	—	—	5,431	—	—	5,431
Balance at September 3, 2013	23,811,692	\$ 24	\$ 126,174	\$ 65,887	\$ —	\$ 192,085

See notes to condensed consolidated financial statements.

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DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows—Unaudited

(Dollars in thousands)

	36 Weeks Ended	
	September 3, 2013	September 4, 2012
Cash flows from operating activities:		
Net income	\$ 7,620	\$ 6,189
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,637	5,758
Loss on disposal of restaurant property	58	103
Write-off of goodwill associated with disposed restaurant property	—	738
Write-off of deferred debt issuance costs	—	1,649
Loan cost amortization	12	219
Non-cash equity based compensation	871	103
Deferred income taxes	3,426	204
Amortization of deferred lease incentives	(345)	(164)
Changes in operating assets and liabilities:		
Inventories	(452)	(79)
Lease incentives receivable	1,987	241
Other assets	440	(320)
Accounts payable	(3,830)	(1,642)
Income taxes	(4,151)	(2,090)
Deferred rent obligations	941	2,510
Other liabilities	(4,075)	(1,111)
Net cash provided by operating activities	10,139	12,308
Cash flows from investing activities:		
Proceeds from sale of property and equipment	5	1,682
Purchases of property and equipment	(17,797)	(19,475)
Other	(92)	(156)
Net cash used in investing activities	(17,884)	(17,949)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of underwriter fees and issuance costs	—	67,278

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Proceeds from long-term debt	—	—
Payments of long-term debt	—	(70,000)
Contribution from majority shareholder	5,431	—
Proceeds from exercise of stock options	262	—
Net cash provided by (used in) financing activities	5,693	(2,722)
Net decrease in cash and cash equivalents	(2,052)	(8,363)
Cash and cash equivalents at beginning of period	10,763	14,119
Cash and cash equivalents at end of period	\$ 8,711	\$ 5,756
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 55	\$ 3,087
Income taxes	\$ 3,984	\$ 4,387

See notes to condensed consolidated financial statements.

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DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements—Unaudited

1. BUSINESS AND BASIS OF PRESENTATION

As of September 3, 2013, Del Frisco's Restaurant Group, Inc. (the "Company") owned and operated 36 restaurants under the concept names of Del Frisco's Double Eagle Steak House ("Del Frisco's"), Sullivan's Steakhouse ("Sullivan's"), and Del Frisco's Grille ("Grille"). Of the 36 restaurants the Company operated at the end of the period covered by this report, there were ten Del Frisco's restaurants, 19 Sullivan's restaurants and seven Grille restaurants in operation in 19 states throughout the United States of America. Two new Grille locations opened during the 36 weeks ended September 3, 2013 in Houston, Texas and Santa Monica, California.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information. Accordingly, they do not include all the information and disclosures required by GAAP for complete financial statements. Operating results for the 12 and 36 weeks ended September 3, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2013. In the opinion of management, the unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation. Certain amounts from the prior years have been reclassified to conform with the fiscal 2013 presentation. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes for the fiscal year ended December 25, 2012 included in the Company's Annual Report filed on Form 10-K for the fiscal year ended December 25, 2012 filed with the SEC on February 26, 2013, as amended on June 14, 2013.

The Company operates on a 52- or 53-week fiscal year ending the last Tuesday in December. The fiscal quarters ended September 3, 2013 and September 4, 2012 each contained 12 weeks and are referred to herein as the third quarter of fiscal year 2013 and the third quarter of fiscal year 2012, respectively. Fiscal year 2013 will be a 53-week fiscal year and fiscal year 2012 was a 52-week fiscal year.

2. PUBLIC OFFERINGS

On July 25, 2013, a secondary public offering of the Company's common stock was completed by the Company's majority shareholder (along with its affiliates and associates, excluding the Company and other companies that it or they own as a result of their investment activities, "Lone Star Fund"). The selling shareholder sold 6,000,000 previously outstanding shares. In addition, on August 6, 2013, the shareholder sold an additional 900,000 shares of common stock to cover over-allotments related to the July 25, 2013 offering. The Company did not receive any proceeds from the offering. The selling shareholder paid all of the underwriting discounts and commissions associated with the sale of the shares; however, the Company incurred \$0.4 million in costs and registration expenses related to this offering. At the completion of this offering and the exercise of the underwriters over-allotment option, Lone Star Fund owned approximately 6.2 million shares of common stock, or approximately 26.0% of the Company's outstanding shares.

On March 7, 2013, a secondary public offering of the Company's common stock was completed by Lone Star Fund. The selling shareholder sold 4,750,000 previously outstanding shares. In addition, on April 10, 2013, the shareholder sold an additional 150,000 shares of common stock to cover over-allotments related to the March 7, 2013 offering. The Company did not receive any proceeds from the offering. The selling shareholder paid all of the underwriting discounts and commissions associated with the sale of the shares; however, the Company incurred \$0.4 million in costs and registration expenses related to this offering.

On July 26, 2012, the Company priced a \$75.4 million initial public offering ("IPO") of 5.8 million shares of common stock at \$13.00 per share. On July 27, 2012, the Company's common stock began trading on the NASDAQ Global Select Market under the ticker symbol "DFRG." Upon the August 1, 2012 closing of the IPO, the Company received net proceeds of approximately \$70.1 million, reflecting approximately \$5.3 million of underwriting discounts and commissions. Additionally, the Company incurred approximately \$3.7 million in offering costs that reduced the net proceeds available to additional paid in capital. At the completion of the IPO, Lone Star Fund owned approximately 18.0 million shares of common stock, or approximately 75.6% of the Company's outstanding shares.

Prior to the IPO closing, the Company converted from a limited liability company to a corporation and in connection therewith, the Company's then-outstanding membership interests were converted into approximately 18.0 million shares of Company common stock (the "Conversion"). All issued and outstanding common stock and per share amounts contained in the financial statements have been retroactively adjusted to reflect the Conversion. As part of the IPO, the Company established its authorized shares at 10,000,000 shares of preferred stock, \$0.001 par value per share, and 190,000,000 shares of common stock, \$0.001 par value per share. At August 1, 2012, the closing date of the IPO, the Company had a total of approximately 23.8 million common shares issued and outstanding.

The Company used a portion of the net proceeds from the IPO to repay \$61.0 million of amounts outstanding under its credit facility on August 1, 2012. In addition, the Company used \$3.0 million of the net proceeds to make a one-time payment to Lone Star Fund in consideration for the termination of an asset advisory agreement upon consummation of the IPO, which is reflected as an operating expense in the condensed consolidated statements of comprehensive income. In conjunction with the repayment of amounts outstanding under the credit facility, the Company wrote-off approximately \$1.6 million in unamortized debt issuance costs in the third quarter of fiscal 2012.

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3. EARNINGS PER SHARE

Basic earnings per share (“EPS”) data is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS data is computed based on the weighted average number of shares of common stock outstanding, including all potentially issuable shares of common stock. Diluted EPS for the 12 and 36 weeks ended September 3, 2013 excludes options to purchase 396,047 and 233,829 shares of common stock, respectively, which were outstanding during the periods, but were antidilutive. Diluted EPS for the 12 and 36 weeks ended September 4, 2012, excludes stock options of 745,000 shares, which were outstanding during the period but were anti-dilutive.

(dollars in thousands, except per share data)

	12 Weeks Ended		36 Weeks Ended	
	September 3, 2013	September 4, 2012	September 3, 2013	September 4, 2012
Income (loss) from continuing operations	\$ (380)	\$ (1,794)	\$ 7,620	\$ 6,732
Discontinued operations, net of income tax benefit	—	(628)	—	(543)
Net income (loss)	\$ (380)	\$ (2,422)	\$ 7,620	\$ 6,189
Shares:				
Weighted average number of common shares outstanding	23,801,335	20,825,619	23,796,890	18,938,318
Dilutive shares	136,153	—	52,056	—
Total Diluted Shares	23,937,488	20,825,619	23,848,946	18,938,318
Basic income (loss) per common share:				
Continuing operations	\$ (0.02)	\$ (0.09)	\$ 0.32	\$ 0.36
Discontinued operations	0.00	(0.03)	0.00	(0.03)
Basic income (loss) per share	\$ (0.02)	\$ (0.12)	\$ 0.32	\$ 0.33
Diluted income (loss) per common share:				
Continuing operations	\$ (0.02)	\$ (0.09)	\$ 0.32	\$ 0.36
Discontinued operations	0.00	(0.03)	0.00	(0.03)
Diluted income (loss) per share	\$ (0.02)	\$ (0.12)	\$ 0.32	\$ 0.33

4. STOCK-BASED EMPLOYEE COMPENSATION

2012 Long-Term Equity Incentive Plan

On July 16, 2012, the Company adopted the Del Frisco's Restaurant Group, Inc. 2012 Long-Term Equity Incentive Plan (the "2012 Plan"), which allows the Company to grant stock options, restricted stock, restricted stock units, deferred stock units and other equity-based awards to directors, officers, key employees and other key individuals performing services for the Company. The 2012 Plan provides for granting of options to purchase shares of common stock at an exercise price not less than the fair value of the stock on the date of grant. Options are exercisable at various periods ranging from one to four years from the date of grant. The 2012 Plan has 2,232,800 shares authorized for issuance under the plan. There were 1,517,975 shares of common stock issuable upon exercise of outstanding options at September 3, 2013 and 714,825 shares available for future grants.

The following table details the Company's total stock option compensation cost during the 12 and 36 weeks ended September 3, 2013 and September 4, 2012 as well as where the costs were expensed (in thousands):

	12 Weeks Ended		36 Weeks Ended	
	September 3, 2013	September 4, 2012	September 3, 2013	September 4, 2012
Restaurant operating expenses	\$ 79	\$ 22	\$ 171	\$ 22
General and administrative costs	322	81	696	81
Total stock compensation cost	\$ 401	\$ 103	\$ 867	\$ 103

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The following table summarizes stock option activity during the 36 week period ended September 3, 2013:

	36 Weeks Ended September 3, 2013			
	Shares	Weighted average exercise price	Weighted average Remaining Contractual Term	Aggregate Intrinsic Value (\$000's)
Outstanding at beginning of year	825,000	13.09		
Granted	765,500	20.82		
Exercised	(17,025)	13.00		
Forfeited	(55,500)	13.65		
Outstanding at end of period	1,517,975	16.97	9.4 years	4,779
Options exercisable at end of period	156,600	13.00	8.9 years	965

A summary of the status of non-vested shares as of September 3, 2013 and changes during the 36 weeks ended September 3, 2013 is presented below:

	36 Weeks Ended September 3, 2013	
	Shares	Weighted average Grant-Date Fair Value
Non-vested shares at beginning of year	825,000	\$ 4.93
Granted	765,500	8.30

Vested	(173,625)	4.82
Forfeited	(55,500)	5.21
Non-vested shares at end of period	1,361,375	\$ 6.83

As of September 3, 2013, there was \$8.7 million of total unrecognized compensation cost related to non-vested stock options. This cost is expected to be recognized over a period of approximately 3.4 years. The following table details the values from and assumptions for the Black-Scholes option pricing model for stock options issued during the 36 weeks ended September 3, 2013 and September 4, 2012:

	2013	2012
Weighted average grant date fair value	\$8.30	\$4.82
Weighted average risk-free interest rate	1.44%	0.58%
Weighted average expected life	5.49 years	5.4 years
Weighted average volatility	41.65%	40.21%
Expected dividend	—	—

The Black-Scholes option valuation model requires the input of highly subjective assumptions, including the expected life of the stock-based award. The assumptions above represent management's best estimates, but these estimates involve inherent uncertainties and the application of management's judgment. The expected term of options granted is based on a representative peer group with similar employee groups and expected behavior. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury constant maturities rate in effect at the time of grant. The Company utilized a weighted rate for expected volatility based on a representative peer group with a similar expected term of options granted. Outstanding options granted under the 2012 Plan are subject to a four year vesting period and have a ten year maximum contractual term.

In addition, the Company is required to estimate the expected forfeiture rate and only recognizes expense for those shares expected to vest. If the actual forfeiture rate is materially different from the Company's estimate, the share-based compensation expense could be materially different.

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5. RELATED PARTY TRANSACTIONS

In connection with the IPO, as well as the March and July 2013 secondary public offerings, certain executives of the Company earned transaction bonuses totaling approximately \$1.5 million, \$1.8 million and \$3.7 million, respectively. These bonuses were earned under letter agreements, as amended, with LSF5 Wagon Holdings, LLC, an affiliate of Lone Star Fund (“Wagon”), in which certain executives of the Company were eligible to receive a transaction bonus upon the occurrence of an eligible transaction. Wagon is responsible for funding any transaction bonuses under these agreements, including those paid in connection with the IPO as well as the March and July 2013 secondary public offerings. As these bonuses were contingent upon employment with the Company, the Company is required to record the expense of these bonuses and recognize the funding by Wagon as additional paid in capital. The \$1.5 million related to the IPO was recorded as an expense to the Company and capital contribution by Wagon in the third quarter of fiscal 2012. The \$1.8 million related to the March 2013 secondary public offering was recorded as an expense to the Company and capital contribution by Wagon in the first quarter of fiscal 2013. The \$3.7 million related to the July 2013 secondary public offering was recorded as an expense to the Company and capital contribution by Wagon in the third quarter of fiscal 2013.

In July 2012, the Company entered into a Transition Services Agreement with an affiliate of Lone Star Fund to provide certain limited support services, including legal and risk management, until the Company can complete transition of these functions to internal or third-party resources. This agreement was terminated in July 2013. General and administrative expenses include charges of approximately \$5,000 and \$30,000 for these services for the 12 and 36 weeks ended September 3, 2013, respectively, and \$24,000 for the 12 and 36 weeks ended September 4, 2012, primarily for legal services.

6. LONG-TERM DEBT

On October 15, 2012 the Company entered into a new credit facility that provides for a three-year unsecured revolving credit facility of up to \$25.0 million. Borrowings under the new credit facility bear interest at a rate of LIBOR plus 1.50%. The Company is required to pay a commitment fee equal to 0.25% per annum on the available but unused revolving credit facility. The credit facility is guaranteed by certain subsidiaries of the Company. The credit facility contains various financial covenants, including a maximum ratio of total indebtedness to EBITDA and minimum fixed charge coverage, both as defined in the credit agreement. The credit facility also contains covenants restricting certain corporate actions, including asset dispositions, acquisitions, the payment of dividends, the incurrence of indebtedness and providing financing or other transactions with affiliates. The Company was in compliance with all of the debt covenants as of September 3, 2013 and December 25, 2012.

As of September 3, 2013 and December 25, 2012, there were no outstanding borrowings on the Company’s revolving credit facility. Under the revolving loan commitment, the Company had approximately \$24.2 million of borrowings available under its revolving credit facility, with \$761,000 in outstanding letters of credit commitments drawn on the facility.

7. INCOME TAXES

The effective income tax benefit rate for the 12 weeks ended September 3, 2013 was 53.8% compared to an effective income tax benefit rate of 44.0% for the 12 weeks ended September 4, 2012. The effective income tax rate for the 36 weeks ended September 3, 2013 was 30.5% compared to an effective income tax rate of 29.1% for the 36 weeks ended September 4, 2012. The factors that cause the effective tax rates to vary from the federal statutory rate of 35% include the impact of FICA tip and other credits, partially offset by state income taxes and certain non-deductible expenses. The increase in the effective tax rate for the 36 weeks ended September 3, 2013 is primarily attributable to the asset advisory agreement termination fee described in Note 2, which was treated as a discrete transaction in the third quarter of 2012 and reduced income before income taxes and increased the impact of the FICA tip and other credits.

Additionally, in the second quarter of fiscal 2013, the Company determined that a deferred tax asset of \$0.5 million recorded in the fourth quarter of fiscal 2012 relating to local income tax net operating loss carryforwards was not realizable, as the related net operating losses originated in years from which the carryforward period had expired. The Company corrected the deferred tax asset account resulting in a non-cash \$0.5 million cumulative adjustment to record additional income tax expense in the second quarter of fiscal 2013. The adjustment did not impact historical cash flows and will not impact the timing of future income tax payments. Prior years' financial statements were not restated as the impact of these issues was immaterial to previously reported results for any individual prior year and 2012.

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Under GAAP, the Company is required to measure certain assets and liabilities at fair value, or to disclose the fair value of certain assets and liabilities recorded at cost. Pursuant to these fair value measurement and disclosure requirements, fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value is calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities includes consideration of non-performance risk, including the Company's own credit risk. Each fair value measurement is reported in one of the following three levels:

Level 1—valuation inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2—valuation inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—valuation inputs are unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The following table presents our financial assets and liabilities measured at fair value on a recurring basis at September 3, 2013 and December 25, 2012, respectively (in thousands):

	Fair Value Measurements	
	September Level 3, 2013	December 25, 2012
Deferred compensation plan investments (life insurance policies)	2 \$ 9,591	\$ 5,586
Deferred compensation plan investments (mutual funds)	1 \$ —	\$ 2,216
Deferred compensation plan liabilities	2 \$ (10,017)	\$ (8,415)

There were no transfers among levels within the fair-value hierarchy during the first three quarters of fiscal 2013 and fiscal 2012. The carrying value of the Company's cash and cash equivalents and restricted cash approximate fair value because of their short term nature, and are classified within Level 1 of the fair value hierarchy. The carrying value of

the Company's accounts payable approximate fair value because of their short term nature, and are classified within Level 2 of the fair value hierarchy.

9. SEGMENT REPORTING

The Company operates the Del Frisco's, Sullivan's, and Grille brands as operating segments. The restaurant concepts operate solely in the U.S. within the full-service dining industry, providing similar products to similar customers. Sales from external customers are derived principally from food and beverage sales, and the Company does not rely on any major customers as a source of sales. The restaurant concepts also possess similar economic characteristics, resulting in similar long-term expected financial performance characteristics. However, as Del Frisco's restaurants typically have higher revenues, driven by their larger physical presence and higher average check, the Del Frisco's, Sullivan's, and Grille operating segments have varying operating income and restaurant-level EBITDA margins due to the leveraging of higher revenues on certain fixed operating costs such as management labor, rent, utilities, and building maintenance.

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The following tables present information about reportable segments for the 12 and 36 weeks ended September 3, 2013 and September 4, 2012 and as of September 3, 2013 and September 4, 2012, respectively. (in thousands):

	12 Weeks Ended September 3, 2013				
	Del				
	Frisco's	Sullivan's	Grille	Corporate	Consolidated
Revenues	\$ 28,786	\$ 16,061	\$ 9,336	\$ —	\$ 54,183
Restaurant-level EBITDA	7,799	1,605	1,563	—	10,967
Capital expenditures	867	537	5,883	280	7,567
Property and equipment	72,572	43,662	39,517	1,722	157,473

	12 Weeks Ended September 4, 2012				
	Del				
	Frisco's	Sullivan's	Grille	Corporate	Consolidated
Revenues	\$ 25,188	\$ 17,174	\$ 5,525	\$ —	\$ 47,887
Restaurant-level EBITDA	6,711	2,480	876	—	10,067
Capital expenditures	3,282	477	3,122	160	7,041
Property and equipment	61,042	41,470	21,734	1,365	125,611

	36 Weeks Ended September 3, 2013				
	Del				
	Frisco's	Sullivan's	Grille	Corporate	Consolidated
Revenues	\$ 93,685	\$ 54,146	\$ 26,514	\$ —	\$ 174,345
Restaurant-level EBITDA	26,134	7,819	4,932	—	38,885
Capital expenditures	2,287	1,488	13,695	327	17,797
Property and equipment	72,572	43,662	39,517	1,722	157,473

	36 Weeks Ended September 4, 2012				
	Del				
	Frisco's	Sullivan's	Grille	Corporate	Consolidated
Revenues	\$ 81,288	\$ 56,468	\$ 13,809	\$ —	\$ 151,565
Restaurant-level EBITDA	22,766	10,261	2,971	—	35,998
Capital expenditures	4,623	2,781	11,763	308	19,475
Property and equipment	61,042	41,470	21,734	1,365	125,611

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In addition to using consolidated results in evaluating the Company's performance and allocating its resources, the Company's chief operating decision maker uses restaurant-level EBITDA, which is not a measure defined by GAAP. The Company defines restaurant-level EBITDA as operating income before pre-opening costs, general and administrative expenses, management and accounting fees paid to related party, asset advisory agreement termination fees, secondary public offering costs, public offering transaction bonuses, and depreciation and amortization. Pre-opening costs are excluded because they vary in timing and magnitude and are not related to the health of ongoing operations. General and administrative expenses and management and accounting fees paid to related party are only included in the Company's consolidated financial results as they are generally not specifically identifiable to individual operating segments as these costs relate to supporting all of the restaurant operations of the Company and the extension of the Company's concepts into new markets. Public offering costs, transaction bonuses, and depreciation and amortization are excluded because they are not ongoing controllable cash expenses and they are not related to the health of ongoing operations. Property and equipment is the only balance sheet measure used by the Company's chief operating decision maker in allocating resources. See table below (in thousands) for a reconciliation of restaurant-level EBITDA to operating income from continuing operations.

	12 Weeks Ended		36 Weeks Ended	
	September 3, 2013	September 4, 2012	September 3, 2013	September 4, 2012
Restaurant-level EBITDA	\$ 10,967	\$ 10,067	\$ 38,885	\$ 35,998
Less:				
Pre-opening costs	835	1,129	1,754	2,031
General and administrative	4,174	3,292	12,112	8,692
Management and accounting fees paid to related party	—	56	—	1,252
Asset advisory agreement termination fee	—	3,000	—	3,000
Public offering costs	381	—	793	—
Public offering transaction bonuses	3,705	1,462	5,510	1,462
Depreciation and amortization	2,631	2,051	7,637	5,622
Operating income (loss)	\$ (759)	\$ (923)	\$ 11,079	\$ 13,939

10. COMMITMENTS AND CONTINGENCIES

The Company is subject to various claims, possible legal actions, and other matters arising out of the normal course of business. While it is not possible to predict the outcome of these issues, management is of the opinion that adequate provision for potential losses has been made in the accompanying condensed consolidated financial statements and that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

Prior to the acquisition of the Company by Lone Star Fund, the Company guaranteed certain lease payments of related parties in connection with the leasing of real estate for restaurant locations. As of December 25, 2012 and September 3, 2013, the Company was responsible as guarantor for five of these leases. The leases expire at various times through 2016. These guarantees will require payment by the Company only in an event of default by the related party where it is unable to make the required lease payments. Management believes that any future payments required under these guarantees will not be significant. At December 25, 2012 and September 3, 2013 the maximum potential amount of future lease payments the Company could be required to make as a result of the guarantees was approximately \$2.0 million and \$1.6 million, respectively.

At December 25, 2012 and September 3, 2013, the Company had outstanding letters of credit of \$976,000, of which \$761,000 were drawn on the Company's credit facility (see Note 6, Long-Term Debt) and \$215,000 were collateralized by restricted cash. The letters of credit typically act as guarantee of payment to certain third parties in accordance with specified terms and conditions.

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11. DISCONTINUED OPERATIONS

On June 30, 2012, the Company closed its Dallas Sullivan's location and on July 2, 2012, the Company completed the sale of the real property to a third party. The Company determined that this closure met the criteria for classification as discontinued operations. As a result, all historical operating results as well as the loss on the sale of this property are reflected within discontinued operations in the condensed consolidated statements of comprehensive income for all periods presented. Loss from discontinued operations, net of tax is comprised of the following for the 12 and 36 weeks ended September 4, 2012 (in thousands):

	12 Weeks Ended September 4, 2012	36 Weeks Ended September 4, 2012
Revenues	\$ 182	\$ 1,505
Loss before income tax	(844)	(805)
Income tax benefit	216	262
Loss from discontinued operations, net of income tax expense	\$ (628)	\$ (543)

12. SUBSEQUENT EVENTS

On October 9, 2013, the Company announced that the Board of Directors approved a common stock repurchase program. Under this program, the Company may from time to time purchase up to \$10 million of its outstanding common stock. The common stock repurchases will be made at the Company's discretion in the open market depending on share price, market conditions and other factors. The common stock repurchase program does not obligate the Company to repurchase any dollar amount or number of shares.

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

Cautionary Statement

Certain statements made or incorporated by reference in this report and our other filings with the Securities and Exchange Commission, in our press releases and in statements made by or with the approval of authorized personnel constitute forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are subject to the safe harbor created thereby. Forward looking statements reflect intent, belief, current expectations, estimates or projections about, among other things, our industry, management's beliefs, and future events and financial trends affecting us. Words such as "anticipates," "expects," "intends," "plans," "believes," "seeks," "estimates," "may," "will" and variations of words or similar expressions are intended to identify forward looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward looking statements. Although we believe the expectations reflected in any forward looking statements are reasonable, such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward looking statements as a result of various factors. These differences can arise as a result of the risks described in the section entitled "Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 25, 2012, filed February 26, 2013 and amended on June 14, 2013, or the 2012 10-K, as well as other factors that may affect our business, results of operations, or financial condition. Forward looking statements in this report speak only as of the date hereof, and forward looking statements in documents incorporated by reference speak only as of the date of those documents. Unless otherwise required by law, we undertake no obligation to publicly update or revise these forward looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward looking statements contained in this report will, in fact, transpire.

Overview

Del Frisco's Restaurant Group develops, owns and operates three contemporary, high-end, complementary restaurants: Del Frisco's Double Eagle Steak House, or Del Frisco's, Sullivan's Steakhouse, or Sullivan's, and Del Frisco's Grille, or the Grille. We currently operate 37 restaurants in 20 states. Of the 36 restaurants we operated as of the end of the period covered by this report, there were ten Del Frisco's restaurants, 19 Sullivan's restaurants and seven Grille restaurants. During the first three fiscal quarters of 2013, we opened two new Grilles located in Houston, Texas and Santa Monica, California. Subsequent to the end of the third quarter, we opened a new Grille restaurant in Palm Beach, Florida.

Unless the context otherwise indicates, all references to "we," "our," "us," or the "Company" refer to Del Frisco's Restaurant Group, Inc. and its subsidiaries.

Our Growth Strategies and Outlook. Our growth model is comprised of the following three primary drivers:

- **Pursue Disciplined Restaurant Growth.** We believe that there are significant opportunities to grow our concepts on a nationwide basis in both existing and new markets where we believe we can generate attractive unit-level economics. We are presented with many development opportunities and we carefully evaluate each opportunity to determine that sites selected for development have a high probability of meeting our return on investment targets. Our disciplined growth strategy includes accepting only those sites that we believe present attractive rent and tenant allowance structures as well as reasonable construction costs given the sales potential of the site. We believe our concepts' complementary market positioning and ability to coexist in the same markets, coupled with our flexible unit models, will allow us to expand each of our three concepts into a greater number of locations.
- **Grow Existing Revenue.** We will continue to pursue opportunities to increase the sales and average check at our existing restaurants, pursue targeted local marketing efforts and evaluate operational initiatives, including growth in private dining, designed to increase restaurant unit volumes.
- **Maintain Margins Throughout Our Growth.** We will continue to aggressively protect our margins using economies of scale, including marketing and purchasing synergies between our concepts and leveraging our corporate infrastructure as we continue to open new restaurants.

We believe there are opportunities to open four to six restaurants annually, generally composed of one Del Frisco's and three to five Sullivan's and/or Grilles, with new openings of our Grille concept likely serving as the primary driver of new unit growth in the near term.

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Performance Indicators. We use the following key metrics in evaluating the performance of our restaurants:

- **Comparable Restaurant Sales.** We consider a restaurant to be comparable during the first full fiscal period following the eighteenth month of operations. Changes in comparable restaurant sales reflect changes in sales for the comparable group of restaurants over a specified period of time. Changes in comparable sales reflect changes in customer count trends as well as changes in average check. Our comparable restaurant base consisted of 27 and 30 restaurants at September 4, 2012 and September 3, 2013, respectively.
- **Average Check.** Average check is calculated by dividing total restaurant sales by customer counts for a given time period. Average check is influenced by menu prices and menu mix. Management uses this indicator to analyze trends in customers' preferences, the effectiveness of menu changes and price increases and per customer expenditures.
- **Average Unit Volume.** Average unit volume, or AUV, consists of the average sales of our restaurants over a certain period of time. This measure is calculated by dividing total restaurant sales within a period by the number of restaurants operating during the relevant period. This indicator assists management in measuring changes in customer traffic, pricing and development of our concepts.
- **Customer Counts.** Customer counts are measured by the number of entrées ordered at our restaurants over a given time period.
- **Restaurant-Level EBITDA Margin.** Restaurant-level EBITDA margin represents net income before interest, taxes and depreciation and amortization plus the sum of certain non-operating expenses, including pre-opening costs, management fees and expenses, asset advisory agreement termination fees, general and administrative expenses, secondary public offering costs, and public offering transaction bonuses, as a percentage of our revenues. By monitoring and controlling our restaurant-level EBITDA margins, we can gauge the overall profitability of our core restaurant operations. See Note 9, Segment Reporting in the notes to our condensed consolidated financial statements for additional information on restaurant-level EBITDA margin.

Our business is subject to seasonal fluctuations. Historically, the percentage of our annual revenues earned during the first and fourth fiscal quarters has been higher due, in part, to increased gift card redemptions and increased private dining during the year-end holiday season, respectively. In addition, our first, second and third quarters each contain 12 operating weeks with the fourth quarter containing 16 or 17 operating weeks. As many of our operating expenses have a fixed component, our operating income and operating income margin have historically varied significantly from quarter to quarter. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year.

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Results of Operations

The following table shows our operating results (in thousands), as well as our operating results as a percentage of revenues, for the 12 and 36 weeks ended September 3, 2013 and September 4, 2012.

	12 Weeks Ended		September 4,		36 Weeks Ended		September 4,	
	September 3,		2012		September 3,		2012	
	2013		2012		2013		2012	
Revenues	\$ 54,183	100.0%	\$ 47,887	100.0%	\$ 174,345	100.0%	\$ 151,565	100.0%
Costs and expenses:								
Costs of sales	16,187	29.9%	14,526	30.3%	52,721	30.2%	46,489	30.7%
Restaurant operating expenses	25,693	47.4%	22,167	46.3%	79,147	45.4%	65,945	43.5%
Marketing and advertising costs	1,336	2.5%	1,127	2.3%	3,592	2.1%	3,133	2.1%
Pre-opening costs	835	1.5%	1,129	2.4%	1,754	1.0%	2,031	1.3%
General and administrative costs	4,174	7.7%	3,292	6.9%	12,112	6.9%	8,692	5.7%
Management and accounting fees paid to related party	—	0.0%	56	0.1%	—	0.0%	1,252	0.8%
Asset advisory agreement termination fee	—	0.0%	3,000	6.3%	—	0.0%	3,000	2.0%
Secondary public offering costs	381	0.7%	—	0.0%	793	0.4%	—	0.0%
Public offering transaction bonuses	3,705	6.8%	1,462	3.0%	5,510	3.2%	1,462	1.0%
Depreciation and amortization	2,631	4.9%	2,051	4.3%	7,637	4.4%	5,622	3.7%
Operating income (loss)	(759)	-1.4%	(923)	-1.9%	11,079	6.4%	13,939	9.2%
Other income (expense), net:								
Interest expense	(8)	0.0%	(619)	-1.3%	(56)	-0.1%	(2,847)	-1.9%
Write-off of debt issuance costs	—	0.0%	(1,649)	-3.4%	—	0.0%	(1,649)	-1.1%
Other	(56)	-0.1%	(14)	-0.1%	(56)	-0.1%	51	0.0%
Income (loss) from continuing operations before income taxes	(823)	-1.5%	(3,205)	-6.7%	10,967	6.2%	9,494	6.2%
Income tax expense (benefit)	(443)	-0.8%	(1,411)	-3.0%	3,347	1.8%	2,762	1.8%
Net income (loss) from continuing operations	\$ (380)	-0.7%	\$ (1,794)	-3.7%	\$ 7,620	4.4%	\$ 6,732	4.4%

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Fiscal Quarter Ended September 3, 2013 (12 weeks) Compared to the Fiscal Quarter Ended September 4, 2012 (12 weeks)

The following tables show our operating results (in thousands), as well as our operating results as a percentage of revenues, for the 12 weeks ended September 3, 2013 and September 4, 2012.

	12 Weeks Ended September 3, 2013							
	Del Frisco's		Sullivan's		Grille		Consolidated	
Revenues	\$ 28,786	100.0%	\$ 16,061	100.0%	\$ 9,336	100.0%	\$ 54,183	100.0%
Costs and expenses:								
Cost of sales	8,749	30.4%	4,870	30.3%	2,568	27.5%	16,187	29.9%
Restaurant operating expenses	11,731	40.7%	8,908	55.5%	5,054	54.2%	25,693	47.4%
Marketing and advertising costs	507	1.8%	678	4.2%	151	1.6%	1,336	2.5%
Restaurant-level EBITDA	7,799	27.1%	1,605	10.0%	1,563	16.7%	10,967	20.2%
Pre-opening costs							835	1.5%
General and administrative							4,174	7.7%
Secondary public offering costs							381	0.7%
Public offering transaction								
bonuses							3,705	6.8%
Depreciation and amortization							2,631	4.9%
Operating income (loss)							\$ (759)	-1.4%
Restaurant operating weeks	120		228		79		427	
Average unit volume	\$ 2,879		\$ 845		\$ 1,418		\$ 1,523	

	12 Weeks Ended September 4, 2012							
	Del Frisco's		Sullivan's		Grille		Consolidated	
Revenues	\$ 25,188	100.0%	\$ 17,174	100.0%	\$ 5,525	100.0%	\$ 47,887	100.0%
Costs and expenses:								
Cost of sales	7,795	31.0%	5,206	30.3%	1,525	27.6%	14,526	30.3%
Restaurant operating expenses	10,251	40.7%	8,888	51.8%	3,028	54.8%	22,167	46.3%
Marketing and advertising costs	431	1.7%	600	3.5%	96	1.7%	1,127	2.3%
Restaurant-level EBITDA	6,711	26.6%	2,480	14.4%	876	15.9%	10,067	21.1%
Pre-opening costs							1,129	2.4%
General and administrative							3,292	6.9%
Management and accounting fees								
paid to related party							56	0.1%
Asset advisory agreement								
termination fee							3,000	6.3%
							1,462	3.0%

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Public offering transaction				
bonuses				
Depreciation and amortization				2,051 4.3%
Operating income (loss)				\$ (923) -1.9%
Restaurant operating weeks	108	228	44	380
Average unit volume	\$ 2,799	\$ 904	\$ 1,507	\$ 1,512

Revenues. Consolidated revenues increased \$6.3 million, or 13.2%, to \$54.2 million in the third quarter of fiscal 2013 from \$47.9 million in the third quarter of fiscal 2012. This increase was due to an additional 47 operating weeks provided by the opening of one restaurant during and four restaurants subsequent to the third quarter of 2012, which provided an additional \$7.8 million in revenues, partially offset by a 0.2% decrease in total comparable restaurant sales resulting from a 0.9% decrease in customer counts, partially offset by a 0.7% increase in average check.

Del Frisco's revenues increased \$3.6 million, or 14.3%, to \$28.8 million in the third quarter of fiscal 2013 from \$25.2 million in the third quarter of fiscal 2012. This increase was primarily due to an additional 12 operating weeks provided by the opening of one restaurant in December 2012, as well as a 4.4% increase in total comparable restaurant sales comprised of a 3.9% increase in customer counts and a 0.5% increase in average check.

Sullivan's revenues decreased \$1.1 million, or 6.5%, to \$16.1 million in the third quarter of fiscal 2013 from \$17.2 million in the third quarter of fiscal 2012. This decrease was due to a 5.9% decrease in total comparable restaurant sales comprised of a 5.0% decrease in customer counts and a 0.9% decrease in average check.

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Grille revenues increased \$3.8 million, or 69.0%, to \$9.3 million in the third quarter of fiscal 2013 from \$5.5 million in the third quarter of fiscal 2012. This increase was primarily due to an additional 35 operating weeks provided by the opening of one restaurant during and three restaurants subsequent to the third quarter of 2012.

Cost of Sales. Consolidated cost of sales increased \$1.7 million, or 11.4%, to \$16.2 million in the third quarter of fiscal 2013 from \$14.5 million in the third quarter of fiscal 2012. This increase was primarily due to an additional 47 operating weeks provided by the opening of one restaurant during and four restaurants subsequent to the third quarter of 2012. As a percentage of consolidated revenues, consolidated cost of sales decreased to 29.9% during the third quarter of fiscal 2013 from 30.3% in the third quarter of fiscal 2012.

As a percentage of revenues, Del Frisco's cost of sales decreased to 30.4% during the third quarter of fiscal 2013 from 31.0% in the third quarter of fiscal 2012. This decrease in cost of sales, as a percentage of revenues, was primarily due to lower protein costs, primarily for our prime beef, accounting for approximately 70% of the decrease, which was partially offset by unfavorable non-protein food and alcoholic beverage costs.

As a percentage of revenues, Sullivan's cost of sales remained consistent at 30.3% during the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. Cost of sales, as a percentage of revenues, was primarily influenced by higher non-protein food costs and beef costs, which were fully offset by favorable dairy and alcoholic beverage costs.

As a percentage of revenues, Grille cost of sales decreased to 27.5% during the third quarter of fiscal 2013 from 27.6% in the third quarter of fiscal 2012. This decrease in cost of sales, as a percentage of revenues, was primarily due to lower new opening inefficiencies due to one new opening in the summer of fiscal 2013 compared to two new openings in the summer of fiscal 2012.

Restaurant Operating Expenses. Consolidated restaurant operating expenses increased \$3.5 million, or 15.9%, to \$25.7 million in the third quarter of fiscal 2013 from \$22.2 million in the third quarter of fiscal 2012. This increase was primarily due to an additional 47 operating weeks in the third quarter of fiscal 2013 as compared to the third quarter of fiscal 2012 from the opening of one restaurant during and four restaurants subsequent to the third quarter of 2012. As a percentage of consolidated revenues, consolidated restaurant operating expenses increased to 47.4% in the third quarter of fiscal 2013 from 46.3% in the third quarter of fiscal 2012.

As a percentage of revenues, Del Frisco's restaurant operating expenses remained consistent at 40.7% during the third quarter of fiscal 2013 compared to the third quarter of fiscal 2012. These costs were influenced by higher management and benefits costs and higher occupancy costs, offset by the leveraging of higher sales on other fixed and semi-variable restaurant operating costs.

As a percentage of revenues, Sullivan's restaurant operating expenses increased to 55.5% during the third quarter of fiscal 2013 from 51.8% in the third quarter of fiscal 2012. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher direct labor and benefits costs, accounting for approximately 65% of the difference, and higher other restaurant operating costs, accounting for approximately 25% of the increase. These increases were primarily related to the de-leveraging effect of certain fixed and semi-variable costs in relation to reduced revenue.

As a percentage of revenues, Grille restaurant operating expenses decreased to 54.2% during the third quarter of fiscal 2013 from 54.8% in the third quarter of fiscal 2012. This decrease in restaurant operating expenses, as a percentage of revenues, was primarily due to lower new opening inefficiencies due to one new opening in the summer of fiscal 2013 compared to two new openings in the summer of fiscal 2012.

Marketing and Advertising Costs. Consolidated marketing and advertising costs increased \$0.2 million, or 18.5%, to \$1.3 million in the third quarter of fiscal 2013 from \$1.1 million in the third quarter of fiscal 2012. As a percentage of consolidated revenues, consolidated marketing and advertising costs increased to 2.5% in the third quarter of fiscal 2013 from 2.3% in the third quarter of fiscal 2012.

As a percentage of revenues, Del Frisco's marketing and advertising costs increased slightly to 1.8% during the third quarter of fiscal 2013 from 1.7% in the third quarter of fiscal 2012. Marketing and advertising costs, as a percentage of revenues, increased primarily due to lower in-restaurant advertising expenses, offset by higher print media and public relations spending. These costs were also impacted by our ability to leverage increased marketing and advertising costs against increased comparable sales.

As a percentage of revenues, Sullivan's marketing and advertising costs increased to 4.2% during the third quarter of fiscal 2013 from 3.5% in the third quarter of fiscal 2012, which was the result of higher outside promotions costs and marketing research. These costs were also impacted by the de-leveraging effect of certain fixed costs in relation to reduced revenue.

As a percentage of revenues, Grille marketing and advertising costs decreased slightly to 1.6% during the third quarter of fiscal 2013 compared to 1.7% in the third quarter of fiscal 2012. The decrease in marketing and advertising costs, as a percentage of revenues, were primarily due to lower public relations spending and in-restaurant advertising expenses, partially offset by higher print media spending.

Pre-opening Costs. Pre-opening costs decreased by \$0.3 million to \$0.8 million in the third quarter of fiscal 2013 from \$1.1 million in the third quarter of fiscal 2012 due to lower pre-opening costs incurred during the third quarter of fiscal 2013 related to pre-opening expenses from one Grille restaurant opening during the summer of 2013, compared to two Grille openings during the summer of fiscal 2012. Pre-opening costs include non-cash straight line rent, which is incurred during construction and can precede a restaurant opening by four to six months.

General and Administrative Costs. General and administrative costs increased \$0.9 million, or 26.8%, to \$4.2 million in the third quarter of fiscal 2013 from \$3.3 million in the third quarter of fiscal 2012. This increase was primarily related to additional compensation costs related to growth in the number of corporate and regional management-level personnel to support recent and anticipated growth and increased restaurant

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management training expenses. In addition, we incurred approximately \$0.3 million in additional public company related expenses in the third quarter of fiscal 2013 over the third quarter of fiscal 2012. As a percentage of revenues, general and administrative costs increased to 7.7% in the third quarter of fiscal 2013 from 6.9% in the third quarter of fiscal 2012. General and administrative costs are expected to continue to increase as a result of costs associated with being a public company as well as costs related to our anticipated growth, including further investments in our infrastructure. As we are able to leverage these investments made in our people and systems, we expect these expenses to decrease as a percentage of total revenues over time.

Management and Accounting Fees Paid to Related Party. Management and accounting fees paid to related party were \$0.1 million in the third quarter of fiscal 2012 and consisted of asset management fees paid to an affiliate of Lone Star Fund under an asset advisory agreement that was terminated in the third quarter of fiscal 2012. There were no such expenses in 2013.

Asset Advisory Agreement Termination Fee. In conjunction with the IPO, the Company terminated its asset advisory agreement with Lone Star Fund. Related to this termination, the Company incurred a one-time \$3.0 million asset advisory agreement termination fee in the third quarter of fiscal 2012.

Secondary Public Offering Costs. In conjunction with the secondary public offering in the third quarter of fiscal 2013, we incurred \$0.4 million in legal, accounting, printing, and registration expenses.

Public Offering Transaction Bonuses . Under a letter agreement, as amended, with LSF5 Wagon Holdings, LLC, an affiliate of Lone Star Fund, or Wagon, certain executives of the Company were eligible to receive a transaction bonus upon the occurrence of an eligible transaction. Wagon is responsible to fund the transaction bonus. As this bonus was contingent upon employment with the Company, the Company is required to record the expense of these bonuses and recognized the funding by Wagon as additional paid in capital. Associated with the completion of the IPO in July 2012 and the July 2013 secondary public offering, the Company recorded \$1.5 million and \$3.7 million in transaction bonuses under the transaction bonus agreements, respectively.

Depreciation and Amortization. Depreciation and amortization increased \$0.5 million, or 28.3%, to \$2.6 million in the third quarter of fiscal 2013 from \$2.1 million in the third quarter of fiscal 2012. The increase in depreciation and amortization expense primarily resulted from new assets placed in service during 2012 and 2013 upon the opening of the six new restaurants as well as for existing restaurants that were remodeled during 2012 and the first three quarters of fiscal 2013.

Interest Expense. Interest expense decreased \$0.6 million to \$8,000 in the third quarter of fiscal 2013 from \$0.6 million in the third quarter of fiscal 2012. This decrease is attributable to the payoff of previously outstanding debt with the proceeds from the IPO and there being no borrowings during the third quarter of 2013 under our revolving credit facility that we entered into in October 2012.

Write-off of Debt Issuance Costs. Write-off of debt issuance costs was \$1.6 million in the third quarter of fiscal 2012. During the third quarter of 2012, the Company wrote off the unamortized debt issuance cost related to the full repayment of the outstanding balance of a previous credit facility.

Income Tax Benefit. The effective income tax benefit rate for the 12 weeks ended September 3, 2013 was 53.8%, compared to an effective income tax benefit rate of 44.0% for the 12 weeks ended September 4, 2012. The factors that cause the effective tax rates to vary from the federal statutory rate of 35% include the impact of FICA tip and other credits, partially offset by state income taxes and certain non-deductible expenses. The increase in the effective tax

benefit rate for the 12 weeks ended September 3, 2013 is primarily attributable to the impact of certain discrete transactions in the third quarter of fiscal 2012, including the asset advisory agreement termination fee related to the IPO, which reduced income before income taxes and increased the impact of the FICA tip and other credits.

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Thirty-Six Weeks Ended September 3, 2013 Compared to the Thirty-Six Weeks Ended September 4, 2012

The following tables show our operating results (in thousands), as well as our operating results as a percentage of revenues, for the 36 weeks ended September 3, 2013 and September 4, 2012.

	36 Weeks Ended September 3, 2013							
	Del Frisco's		Sullivan's		Grille		Consolidated	
Revenues	\$ 93,685	100.0%	\$ 54,146	100.0%	\$ 26,514	100.0%	\$ 174,345	100.0%
Costs and expenses:								
Cost of sales	28,686	30.6%	16,654	30.8%	7,381	27.8%	52,721	30.2%
Restaurant operating expenses	37,379	39.9%	28,034	51.8%	13,734	51.8%	79,147	45.4%
Marketing and advertising costs	1,486	1.6%	1,639	3.0%	467	1.8%	3,592	2.1%
Restaurant-level EBITDA	26,134	27.9%	7,819	14.4%	4,932	18.6%	38,885	22.3%
Pre-opening costs							1,754	1.0%
General and administrative							12,112	6.9%
Secondary public offering costs							793	0.4%
Public offering transaction bonuses							5,510	3.2%
Depreciation and amortization							7,637	4.4%
Operating income							\$ 11,079	6.4%
Restaurant operating weeks	360		684		212		1,256	
Average unit volume	\$ 9,369		\$ 2,850		\$ 4,502		\$ 4,997	

	36 Weeks Ended September 4, 2012							
	Del Frisco's		Sullivan's		Grille		Consolidated	
Revenues	\$ 81,288	100.0%	\$ 56,468	100.0%	\$ 13,809	100.0%	\$ 151,565	100.0%
Costs and expenses:								
Cost of sales	25,544	31.4%	17,187	30.4%	3,758	27.2%	46,489	30.7%
Restaurant operating expenses	31,651	39.0%	27,412	48.5%	6,882	49.9%	65,945	43.5%
Marketing and advertising costs	1,327	1.6%	1,608	2.9%	198	1.4%	3,133	2.1%
Restaurant-level EBITDA	22,766	28.0%	10,261	18.2%	2,971	21.5%	35,998	23.7%
Pre-opening costs							2,031	1.3%
General and administrative							8,692	5.7%
Management and accounting fees paid to related party							1,252	0.8%
Asset advisory agreement termination fee							3,000	2.0%
Public offering transaction bonuses							1,462	1.0%

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Depreciation and amortization				5,622	3.7%
Operating income				\$ 13,939	9.2%
Restaurant operating weeks	324	684	93	1,101	
Average unit volume	\$ 9,032	\$ 2,972	\$ 5,345	\$ 4,956	

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Revenues. Consolidated revenues increased \$22.7 million, or 15.0%, to \$174.3 million in the first three quarters of fiscal 2013 from \$151.6 million in the first three quarters of fiscal 2012. This increase was due to an additional 155 operating weeks provided by the opening of two restaurants during and four restaurants subsequent to the first three quarters of 2012, which provided an additional \$24.6 million in revenues, as well as a 0.6% increase in total comparable restaurant sales comprised of a 0.5% increase in customer counts and a 0.1% increase in average check.

Del Frisco's revenues increased \$12.4 million, or 15.3%, to \$93.7 million in the first three quarters of fiscal 2013 from \$81.3 million in the first three quarters of fiscal 2012. This increase was primarily due to an additional 36 operating weeks provided by the opening of one restaurant in December 2012, as well as a 4.1% increase in total comparable restaurant sales comprised of a 3.7% increase in customer counts and a 0.4% increase in average check.

Sullivan's revenues decreased \$2.3 million, or 4.1%, to \$54.1 million in the first three quarters of fiscal 2013 from \$56.5 million in the first three quarters of fiscal 2012. This decrease was due to a 4.2% decrease in total comparable restaurant sales comprised of a 2.2% decrease in average check and a 2.0% decrease in customer counts.

Grille revenues increased \$12.7 million, or 92.0%, to \$26.5 million in the first three quarters of fiscal 2013 from \$13.8 million in the first three quarters of fiscal 2012. This increase was primarily due to an additional 119 operating weeks provided by the opening of two restaurants during and three restaurants subsequent to the first three quarters of 2012.

Cost of Sales. Consolidated cost of sales increased \$6.2 million, or 13.4%, to \$52.7 million in the first three quarters of fiscal 2013 from \$46.5 million in the first three quarters of fiscal 2012. This increase was primarily due to an additional 155 operating weeks in the first three quarters of fiscal 2013 as compared to the first three quarters of fiscal 2012 from the two restaurants opened during and four restaurants opened subsequent to the first three quarters of 2012. As a percentage of consolidated revenues, consolidated cost of sales decreased to 30.2% during the first three quarters of fiscal 2013 from 30.7% in the first three quarters of fiscal 2012.

As a percentage of revenues, Del Frisco's cost of sales decreased to 30.6% during the first three quarters of fiscal 2013 from 31.4% in the first three quarters of fiscal 2012. This decrease in cost of sales, as a percentage of revenues, was primarily due to lower protein costs, primarily for our prime beef and seafood, accounting for approximately 90% of the decrease, which was partially offset by unfavorable non-protein food and alcoholic beverage costs.

As a percentage of revenues, Sullivan's cost of sales increased to 30.8% during the first three quarters of fiscal 2013 from 30.4% in the first three quarters of fiscal 2012. This increase in cost of sales, as a percentage of revenues, was primarily due to higher non-protein food costs, accounting for approximately 60% of the increase, and beef costs, accounting for approximately 35% of the increase, which were partially offset by favorable seafood and alcoholic beverage costs.

As a percentage of revenues, Grille cost of sales increased to 27.8% during the first three quarters of fiscal 2013 from 27.2% in the first three quarters of fiscal 2012. This increase in cost of sales, as a percentage of revenues, was primarily due to a shift in sales mix to menu items with higher costs as well as expected new opening-inefficiencies at our new restaurant locations.

Restaurant Operating Expenses. Consolidated restaurant operating expenses increased \$13.2 million, or 20.0%, to \$79.1 million in the first three quarters of fiscal 2013 from \$65.9 million in the first three quarters of fiscal 2012. This increase was primarily due to an additional 155 operating weeks in the first three quarters of fiscal 2013 as compared to the first three quarters of fiscal 2012 from the two restaurants opened during and four restaurants opened subsequent to the first three quarters of 2012. As a percentage of consolidated revenues, consolidated restaurant

operating expenses increased to 45.4% in the first three quarters of fiscal 2013 from 43.5% in the first three quarters of fiscal 2012.

As a percentage of revenues, Del Frisco's restaurant operating expenses increased to 39.9% during the first three quarters of fiscal 2013 from 39.0% in the first three quarters of fiscal 2012. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher management and benefits costs, accounting for approximately 60% of the increase, and higher other restaurant operating costs, accounting for approximately 25% of the increase. These increases were due primarily to the expected new-opening inefficiencies of our Del Frisco's that opened in December 2012, as well as higher utilities and credit card fees.

As a percentage of revenues, Sullivan's restaurant operating expenses increased to 51.8% during the first three quarters of fiscal 2013 from 48.5% in the first three quarters of fiscal 2012. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher direct labor and benefits costs, accounting for approximately 45% of the increase, and higher other restaurant operating costs, accounting for approximately 45% of the increase. These increases were due in part to the de-leveraging of certain fixed and semi-variable costs, such as utilities and building and equipment maintenance, on lower revenues.

As a percentage of revenues, Grille restaurant operating expenses increased to 51.8% during the first three quarters of fiscal 2013 from 49.9% in the first three quarters of fiscal 2012. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher labor and restaurant operating costs due primarily to new opening inefficiencies.

Marketing and Advertising Costs. Consolidated marketing and advertising costs increased \$0.5 million, or 14.7%, to \$3.6 million in the first three quarters of fiscal 2013 from \$3.1 million in the first three quarters of fiscal 2012. As a percentage of consolidated revenues, consolidated

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marketing and advertising costs remained constant at 2.1% during the first three quarters of fiscal 2013 compared to the first three quarters of 2012.

As a percentage of revenues, Del Frisco's marketing and advertising costs remained constant at 1.6% during the first three quarters of fiscal 2013 compared to the first three quarters of fiscal 2012. Marketing and advertising costs, as a percentage of revenues, were influenced by lower in-restaurant advertising expenses, offset by higher print media and public relations spending. These costs, as a percentage of revenues, were also impacted by our ability to leverage increased marketing and advertising costs against increased comparable sales.

As a percentage of revenues, Sullivan's marketing and advertising costs increased to 3.0% during the first three quarters of fiscal 2013 from 2.9% in the first three quarters of fiscal 2012, which was the result of higher outside promotion costs partially offset by lower spending for in-restaurant advertising expenses. These costs were also impacted by the de-leveraging effect of certain fixed costs in relation to reduced revenue.

As a percentage of revenues, Grille marketing and advertising costs increased to 1.8% during the first three quarters of fiscal 2013 from 1.4% in the first three quarters of fiscal 2012. The increase in marketing and advertising costs, as a percentage of revenues, was primarily due to higher public relations and print media spending, partially offset by lower print production expense.

Pre-opening Costs. Pre-opening costs decreased by \$0.3 million to \$1.7 million in the first three quarters of fiscal 2013 from \$2.0 million in the first three quarters of fiscal 2012 due to higher pre-opening costs incurred in the 2012 period due to non-cash straight line rent related to the Del Frisco's restaurant opened in the fourth quarter of fiscal 2012. Pre-opening costs include non-cash straight line rent, which is incurred during construction and can precede a restaurant opening by four to six months.

General and Administrative Costs. General and administrative costs increased \$3.4 million, or 39.3%, to \$12.1 million in the first three quarters of fiscal 2013 from \$8.7 million in the first three quarters of fiscal 2012. This increase was primarily related to additional compensation costs related to growth in the number of corporate and regional management-level personnel to support recent and anticipated growth, as well as increased restaurant management training expenses. In addition, we incurred approximately \$1.2 million in additional public company related expenses in the first three quarters of fiscal 2013 over the first three quarters of fiscal 2012. As a percentage of revenues, general and administrative costs increased to 6.9% in the first three quarters of fiscal 2013 from 5.7% in the first three quarters of fiscal 2012. General and administrative costs are expected to continue to increase as a result of costs associated with being a public company as well as costs related to our anticipated growth, including further investments in our infrastructure. As we are able to leverage these investments made in our people and systems, we expect these expenses to decrease as a percentage of total revenues over time.

Management and Accounting Fees Paid to Related Party. Management and accounting fees paid to related party were \$1.3 million in the first three quarters of fiscal 2012 and consisted of asset management fees paid to an affiliate of Lone Star Fund under an asset advisory agreement. This agreement was terminated in the third quarter of fiscal 2012, and there were no such expenses in 2013.

Asset Advisory Agreement Termination Fee. In conjunction with the IPO, the Company terminated its asset advisory agreement with Lone Star Fund. Related to this termination, the Company incurred a one-time \$3.0 million asset advisory agreement termination fee in the third quarter of fiscal 2012.

Secondary Public Offering Costs. In conjunction with the secondary public offerings in the first and third quarter of fiscal 2013, we incurred \$0.8 million in legal, accounting, printing, and registration expenses.

Public Offering Transaction Bonuses. Under letter agreements with Wagon, certain of our executives were eligible to receive a transaction bonus upon the occurrence of an eligible transaction. Wagon is responsible to fund the transaction bonuses. As these bonuses were contingent upon employment with us, we are required to record the expense of these bonuses and recognize the funding by Wagon as additional paid in capital. Associated with the completion of the secondary public offerings in the first and third quarter of fiscal 2013, we recorded a total of \$5.5 million in transaction bonuses expense under the transaction bonus agreements. Associated with the completion of the IPO, the Company recorded \$1.5 million in transaction bonuses under the transaction bonus agreements during the first three quarters of fiscal 2012.

Depreciation and Amortization. Depreciation and amortization increased \$2.0 million, or 35.8%, to \$7.6 million in the first three quarters of fiscal 2013 from \$5.6 million in the first three quarters of fiscal 2012. The increase in depreciation and amortization expense primarily resulted from new assets placed in service during 2012 and 2013 upon the opening of the six new restaurants as well as for existing restaurants that were remodeled during 2012 and the first three quarters of fiscal 2013.

Interest Expense. Interest expense decreased \$2.8 million to \$56,000 in the first three quarters of fiscal 2013 from \$2.8 million in the first three quarters of fiscal 2012. This decrease is attributable to the payoff of previously outstanding debt with the proceeds from the IPO and there being no borrowings during the first three quarters of 2013 under our revolving credit facility that we entered into in October 2012.

Write-off of Debt Issuance Costs. Write-off of debt issuance costs was \$1.6 million in the first three quarters of fiscal 2012. During the third quarter of 2012, the Company wrote off the unamortized debt issuance cost related to the full repayment of the outstanding balance of the 2011 credit facility.

Income Tax Expense. The effective income tax rate for the 36 weeks ended September 3, 2013 was 30.5%, compared to an effective income tax rate of 29.1% for the 36 weeks ended September 4, 2012. The factors that cause the effective tax rates to vary from the federal statutory rate of 35% include the impact of FICA tip and other credits, partially offset by state income taxes and certain non-deductible expenses. The increase in

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the effective tax rate for the 36 weeks ended September 3, 2013 is primarily attributable to certain discrete transactions in the third quarter of fiscal 2012, including the asset advisory agreement termination fee related to the IPO, which reduced income before income taxes and increased the impact of the FICA tip and other credits.

Additionally, in the second quarter of fiscal 2013, we determined that a deferred tax asset of \$0.5 million recorded in the fourth quarter of fiscal 2012 relating to local income tax net operating loss carryforwards was not realizable, as the related net operating losses originated in years from which the carryforward period had expired. We corrected the deferred tax asset account resulting in a non-cash \$0.5 million cumulative adjustment to record additional income tax expense in the second quarter of fiscal 2013. The adjustment did not impact historical cash flows and will not impact the timing of future income tax payments. Prior years' financial statements were not restated as the impact of these issues was immaterial to previously reported results for any individual prior year and 2012.

Liquidity and Capital Resources

We expect to finance our operations for at least the next several years, including costs of opening currently planned new restaurants, through cash provided by operations and borrowings available under our credit facility. We cannot be sure that these sources will be sufficient to finance our operations, and we may seek additional financing in the future. As of September 3, 2013, we had cash and cash equivalents of approximately \$8.7 million.

Our operations have not required significant working capital and, like many restaurant companies, we may at times have negative working capital. Revenues are received primarily in cash or by credit card, and restaurant operations do not require significant receivables or inventories, other than our wine inventory. In addition, we receive trade credit for the purchase of food, beverages and supplies, thereby reducing the need for incremental working capital to support growth.

The following table presents a summary of our cash flows for the 36 weeks ended September 3, 2013 and September 4, 2012 (in thousands):

	36 Weeks Ended	
	September 3, 2013	September 4, 2012
Net cash provided by operating activities	\$ 10,139	\$ 12,308
Net cash used in investing activities	(17,884)	(17,949)
Net cash provided by (used in) financing activities	5,693	(2,722)
Net increase (decrease) in cash and cash equivalents	\$ (2,052)	\$ (8,363)

Operating Activities. Cash flows provided by operating activities was \$10.2 million for the 36 weeks ended September 3, 2013, consisting primarily of net income of \$7.7 million, adjustments for depreciation, amortization and other non-cash charges totaling \$8.3 million, a net increase of \$2.4 million resulting from a decrease in other current

assets and the collection of lease incentives receivable, a \$3.4 million increase in net deferred income tax liability and a \$1.0 million increase in deferred rent obligations. These cash inflows were partially offset by decreases in accounts payable, accrued liabilities and income taxes payable totaling \$12.1 million and \$0.5 million related to an increase in inventories. Cash flows provided by operating activities was \$12.3 million for the 36 weeks ended September 4, 2012, consisting primarily of net income of \$6.2 million, adjustments for depreciation, amortization and other non-cash charges totaling \$8.6 million, a net increase of \$0.3 million resulting from the collection of lease incentives receivable and a \$2.5 million increase in deferred rent obligations. These cash inflows were partially offset by decreases in accounts payable, accrued liabilities and income taxes payable totaling \$4.9 million and \$0.4 million related to an increase in inventories and other current assets.

Investing Activities. Net cash used in investing activities for the 36 weeks ended September 3, 2013 was \$17.9 million, consisting primarily of purchases of property and equipment. These purchases primarily related to construction of one Grille restaurant opened during the first quarter of fiscal 2013, one Grille restaurant opened in the third quarter of fiscal 2013, four Grille restaurants in progress at the end of the period and remodel activity of existing restaurants. Net cash used in investing activities for the 36 weeks ended September 4, 2012 was \$17.9 million, consisting primarily of purchases of property and equipment of \$19.5 million, partially offset by proceeds from the sale of the Dallas Sullivan's restaurant property. These purchases primarily related to construction of two Grille restaurants opened during the period, one Grille restaurant and one Del Frisco's restaurant in progress at the end of the period and remodel activity of existing restaurants.

Financing Activities. Net cash provided by financing activities for the 36 weeks ended September 3, 2013 was \$5.7 million, which was comprised primarily of the contribution by Wagon to pay the transaction bonuses related to the secondary public offerings that occurred in March and July of 2013. Net cash used in financing activities for the 36 weeks ended September 4, 2012 was \$2.7 million consisting of net proceeds from the issuance of common stock in the IPO, net of underwriter fees and issuance costs, of \$67.3 million offset by principal payments of \$70.0 million made on our prior credit facility.

Capital Expenditures. We typically target an average cash investment of approximately \$7.0 million to \$9.0 million per restaurant for a Del Frisco's restaurant and \$3.0 million to \$4.5 million for a Sullivan's or a Grille, in each case net of landlord contributions and equipment financing and including pre-opening costs. In addition, we are currently "refreshing" a number of our Sullivan's and Del Frisco's locations to, among other

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things, add additional patio seating. These capital expenditures will primarily be funded by cash flows from operations and, if necessary, by the use of our credit facility, depending upon the timing of expenditures.

Credit Facility. On October 15, 2012, we entered into a new credit facility that provides for a three-year unsecured revolving credit facility of up to \$25.0 million. Borrowings under the 2012 credit facility bear interest at a rate of LIBOR plus 1.50%. We are required to pay a commitment fee equal to 0.25% per annum on the available but unused revolving loan facility. The credit facility is guaranteed by certain of our subsidiaries. The credit facility contains various financial covenants, including a maximum ratio of total indebtedness to EBITDA (as defined in the credit facility), and minimum fixed charge coverage. Specifically, we are required to have a leverage ratio of less than 1.00 and a fixed charge coverage ratio of greater than 2.00. As of September 3, 2013, we were in compliance with each of these tests. The credit facility also contains covenants restricting certain corporate actions, including asset dispositions, acquisitions, the payment of dividends, the incurrence of indebtedness and providing financing or other transactions with affiliates. As of September 3, 2013 there were no outstanding borrowings under this facility. See Note 6, Long-Term Debt, in the notes to our condensed consolidated financial statements for additional information on our credit facility.

We believe that net cash provided by operating activities and available borrowings under our credit facility will be sufficient to fund currently anticipated working capital, planned capital expenditures and debt service requirements for the next 24 months. We regularly review acquisitions and other strategic opportunities, which may require additional debt or equity financing. We currently do not have any pending agreements or understandings with respect to any acquisition or other strategic opportunities.

Common Stock Repurchase Program. On October 9, 2013, the Company announced that the Board of Directors approved a common stock repurchase program. Under this program, the Company may from time to time purchase up to \$10 million of its outstanding common stock. The common stock repurchases will be made at the Company's discretion in the open market depending on share price, market conditions and other factors. The common stock repurchase program does not obligate the Company to repurchase any dollar amount or number of shares.

Off-Balance Sheet Arrangements

Prior to the acquisition of Lone Star Steakhouse & Saloon, Inc. by Lone Star Fund, our predecessor guaranteed lease payments of certain non-Del Frisco's Restaurant Group restaurants in connection with the leasing of real estate for these locations. As of September 3, 2013, we continue to be a guarantor for five of these leases. The leases expire at various times through 2016. These guarantees would require payment by us only in an event of default by the non-Del Frisco's Restaurant Group tenant where it failed to make the required lease payments or perform other obligations under a lease. We believe that the likelihood is remote that material payments will be required under these guarantees. At September 3, 2013, the maximum potential amount of future lease payments we could be required to make as a result of the guarantees was \$1.6 million.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenues and

expenses during the reporting period. We base our estimates on historical experience and on various assumptions that are believed to be reasonable under the circumstances at the time. Actual amounts may differ from those estimates.

There have been no material changes to the significant accounting policies from what was previously reported in our 2012 10-K.

Recent Accounting Pronouncements

In July 2012, the Financial Accounting Standards Board issued Accounting Standards Update, or ASU, 2012-02, Intangibles—Goodwill and Other (Topic 350), Testing Indefinite Lived Intangible Assets for Impairment. This ASU simplifies the guidance for impairment testing of indefinite-lived intangible assets other than goodwill and gives companies the option to assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test. Companies electing to perform a qualitative assessment are no longer required to calculate the fair value of an indefinite-lived intangible asset unless the company determines, based on a qualitative assessment, that it is “more likely than not” that the asset is impaired. This update is effective for annual and interim impairment tests performed in fiscal years beginning after September 15, 2012. The adoption of this new guidance did not have a significant impact on our consolidated financial statements.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk
Interest Rate Risk

We are exposed to market risk from fluctuations in interest rates. For fixed rate debt, interest rate changes affect the fair market value of the debt but do not impact earnings or cash flows. Conversely for variable rate debt, including borrowings available under our credit facility, interest rate changes generally do not affect the fair market value of the debt, but do impact future earnings and cash flows, assuming other factors are held constant. Holding other variables constant, such as debt levels, a hypothetical immediate one percentage point change in interest rates would be expected to have an impact on pre-tax earnings and cash flows of approximately \$10,000 per \$1.0 million outstanding.

Commodity Price Risk

We are exposed to market price fluctuations in beef, seafood, produce and other food product prices. Given the historical volatility of beef, seafood, produce and other food product prices, these fluctuations can materially impact our food and beverage costs. While we have taken steps to qualify multiple suppliers who meet our standards as suppliers for our restaurants and enter into agreements with suppliers for some of the commodities used in our restaurant operations, there can be no assurance that future supplies and costs for such commodities will not fluctuate due to weather and other market conditions outside of our control. We are currently unable to contract for some of our commodities, such as fresh seafood and certain produce, for periods longer than one week. Consequently, such commodities can be subject to unforeseen supply and cost fluctuations. Dairy costs can also fluctuate due to government regulation. Because we typically set our menu prices in advance of our food product prices, our menu prices cannot immediately take into account changing costs of food items. To the extent that we are unable to pass the increased costs on to our customers through price increases, our results of operations would be adversely affected. We do not use financial instruments to hedge our risk to market price fluctuations in beef, seafood, produce and other food product prices at this time.

Inflation

Over the past five years, inflation has not significantly affected our operations. However, the impact of inflation on labor, food and occupancy costs could, in the future, significantly affect our operations. We pay many of our employees hourly rates related to the applicable federal or state minimum wage. Food costs as a percentage of revenues have been somewhat stable due to procurement efficiencies and menu price adjustments, although no assurance can be made that our procurement will continue to be efficient or that we will be able to raise menu prices in the future. Costs for construction, taxes, repairs, maintenance and insurance all impact our occupancy costs. We believe that our current strategy, which is to seek to maintain operating margins through a combination of menu price increases, cost controls, careful evaluation of property and equipment needs, and efficient purchasing practices, has been an effective tool for dealing with inflation. There can be no assurance, however, that future inflationary or other cost pressure will be effectively offset by this strategy.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedure

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 defined in Rule 13a-15(f) of 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

We are subject to various claims and legal actions, including class actions, arising in the ordinary course of business from time to time, including claims related to food quality, personal injury, contract matters, health, wage and employment and other issues. None of these types of litigation, most of which are covered by insurance, has had a material effect on us, and 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 we believe 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 our risk factors as previously reported in our 2012 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS
EXHIBIT INDEX

Exhibit Number	Description
10.1	Letter Agreement, dated July 22, 2013, among the Company, Hudson Advisors LLC and Hudson Americas LLC (terminating the Company's Transition Services Agreement dated July 23, 2012).
10.2	First Amendment to Loan Agreement, dated as of October 8, 2013, among the Company and JPMorgan Chase Bank, N.A.
31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal 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 Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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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: October 9, 2013

Del Frisco's
Restaurant Group,
Inc.

By: /s/ Mark S.
Mednansky
Mark S.
Mednansky
Chief
Executive
Officer and
Director

(Principal
Executive
Officer)

By: /s/ Thomas
J. Pennison,
Jr.
Thomas J.
Pennison,
Jr.
Chief
Financial
Officer,

(Principal
Financial
Officer)

