

Del Frisco's Restaurant Group, Inc.  
Form 10-Q  
April 30, 2013  
Table of Contents

## 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 March 19, 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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<b>Delaware</b> (State or other jurisdiction of incorporation or organization)	<b>20-8453116</b> (I.R.S. Employer Identification No.)
<b>930 S. Kimball Ave., Suite 100,</b>  <b>Southlake, TX</b> (Address of principal executive offices)	<b>76092</b> (Zip code)
<b>(817) 601-3421</b> (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 April 29, 2013, the latest practicable date, 23,794,667 shares of the registrant's common stock, \$0.001 par value per share, were issued and outstanding.

**Table of Contents**

Table of Contents:

<u>Part I Financial Information</u>	3
<u>Item 1. Financial Statements</u>	3
<u>Condensed Consolidated Balance Sheets</u>	3
<u>Condensed Consolidated Statements of Income and Comprehensive Income</u>	4
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	21
<u>Item 4. Controls and Procedures</u>	22
<u>Part II Other Information</u>	23
<u>Item 1. Legal Proceedings</u>	23
<u>Item 1A. Risk Factors</u>	23
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	23
<u>Item 3. Defaults Upon Senior Securities</u>	23
<u>Item 4. Mine Safety Disclosures</u>	23
<u>Item 5. Other Information</u>	23
<u>Item 6. Exhibits</u>	23
<u>Signatures</u>	24

**Table of Contents****PART I****FINANCIAL INFORMATION****Item 1. Financial Statements****DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Balance Sheets**

(Dollars in thousands)

	March 19, 2013 (unaudited)	December 25, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,809	\$ 10,763
Restricted cash	215	215
Inventory	12,125	12,103
Income tax receivable	232	
Deferred income taxes	2,302	2,067
Lease incentives receivable	2,712	3,092
Prepaid expenses and other	4,255	4,758
Total current assets	31,650	32,998
Property and equipment, net	108,390	105,568
Goodwill	75,365	75,365
Intangible assets, net	36,360	36,391
Deferred compensation plan investments	8,849	7,802
Other assets	260	261
Total assets	\$ 260,874	\$ 258,385
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 5,200	\$ 8,804
Accrued payroll	4,533	6,262
Accrued self-insurance	1,646	1,662
Deferred revenue	8,657	10,314
Income taxes payable		1,768
Other current liabilities	6,176	4,943
Total current liabilities	26,212	33,753
Deferred rent obligations	23,515	22,644
Deferred tax liabilities	13,645	10,792
Other liabilities	14,025	13,295

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Total liabilities	77,397	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 March 19, 2013 (unaudited)		
Common stock, \$0.001 par value, 190,000,000 shares authorized, 23,794,667 shares issued and outstanding at December 25, 2012, and March 19, 2013 (unaudited)	24	24
Additional paid in capital	121,617	119,610
Retained earnings	61,836	58,267
Accumulated other comprehensive income		
Total stockholders' equity	183,477	177,901
Total liabilities and stockholders' equity	\$ 260,874	\$ 258,385

See notes to condensed consolidated financial statements.

**Table of Contents****DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Income and Comprehensive Income Unaudited**

(Dollars in thousands, except per share data)

	12 Weeks Ended	
	March 19, 2013	March 20, 2012
Revenues	\$ 59,802	\$ 52,942
Costs and expenses:		
Costs of sales	18,420	16,367
Restaurant operating expenses	26,545	22,316
Marketing and advertising costs	908	853
Pre-opening costs	591	70
General and administrative costs	3,775	2,646
Management and accounting fees paid to related party		744
Secondary public offering costs	412	
Public offering transaction bonuses	1,805	
Depreciation and amortization	2,442	1,694
Operating income	4,904	8,252
Other income (expense), net:		
Interest expense	(24)	(1,221)
Other		(3)
Income from continuing operations before income taxes	4,880	7,028
Income tax expense	1,311	2,130
Income from continuing operations	\$ 3,569	\$ 4,898
Discontinued operations, net of income tax benefit		87
Net income	\$ 3,569	\$ 4,985
Basic and diluted income per common share:		
Continuing operations	\$ 0.15	\$ 0.27
Discontinued operations		\$ 0.01
Basic and diluted income per share	\$ 0.15	\$ 0.28
Shares used in computing net income per common share:		
Basic	23,794,667	17,994,667
Diluted	23,794,667	17,994,667
Comprehensive income	\$ 3,569	\$ 4,985

See notes to condensed consolidated financial statements.



**Table of Contents**

**DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES**

**Condensed Consolidated Statement of Changes in Stockholders' Equity - Unaudited**

(Dollars in thousands)

	Common Stock Shares	Par Value	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 25, 2012	23,794,667	\$ 24	\$ 119,610	\$ 58,267	\$	\$ 177,901
Comprehensive income				3,569		3,569
Share-based compensation costs			228			228
Contribution by majority shareholder (see Note 5)			1,779			1,779
Balance at March 19, 2013	23,794,667	\$ 24	\$ 121,617	\$ 61,836	\$	\$ 183,477

See notes to condensed consolidated financial statements.



**Table of Contents****DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Cash Flows - Unaudited**

(Dollars in Thousands)

	12 Weeks Ended	
	March 19, 2013	March 20, 2012
Cash flows from operating activities:		
Net income	\$ 3,569	\$ 4,985
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,442	1,713
Loan cost amortization	4	94
Non-cash equity based compensation	228	
Deferred income taxes	2,618	(501)
Amortization of deferred lease incentives	(107)	(42)
Changes in operating assets and liabilities:		
Inventories	(22)	153
Lease incentives receivable	1,030	
Other assets	1,235	29
Accounts payable	(3,604)	(1,787)
Income taxes	(2,098)	1,154
Deferred rent obligations	289	121
Other liabilities	(1,302)	(2,596)
<b>Net cash provided by operating activities</b>	<b>4,282</b>	<b>3,323</b>
Cash flows from investing activities:		
Purchases of property and equipment	(5,224)	(3,773)
Other	(12)	3
<b>Net cash used in investing activities</b>	<b>(5,236)</b>	<b>(3,770)</b>
Cash flows from financing activities:		
Payments of long-term debt		(5,000)
<b>Net cash used in financing activities</b>		<b>(5,000)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(954)</b>	<b>(5,447)</b>
Cash and cash equivalents at beginning of period	10,763	14,119
<b>Cash and cash equivalents at end of period</b>	<b>\$ 9,809</b>	<b>\$ 8,672</b>
Supplemental disclosures of cash flow information:		
Cash paid during the year for:		
Interest	\$ 23	\$ 1,226
Income taxes	\$ 787	\$ 1,517

See notes to condensed consolidated financial statements.



**Table of Contents**

**DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements Unaudited**

**1. BUSINESS AND BASIS OF PRESENTATION**

As of March 19, 2013, Del Frisco's Restaurant Group, Inc. (the Company) owned and operated 35 restaurants under the brand 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 35 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 six Grille restaurants in operation in 19 states throughout the United States of America. One new Grille location opened during the 12 weeks ended March 19, 2013 in Houston, Texas.

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 weeks ended March 19, 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. 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.

The Company operates on a 52- or 53-week fiscal year ending the last Tuesday in December. The fiscal quarters ended March 19, 2013 and March 20, 2012 each contained 12 weeks and are referred to herein as the first quarter of fiscal year 2013 and the first 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. SECONDARY PUBLIC OFFERING**

On March 7, 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 4,750,000 previously outstanding shares. 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 the offering during the 12 weeks ended March 19, 2013. 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.

**Table of Contents****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 weeks ended March 19, 2013 excludes options to purchase 796,000 shares of common stock, which were outstanding during the period but were anti-dilutive. At March 20, 2012, there were no outstanding stock options or other dilutive securities and therefore they were not included in the dilutive calculation.

(all information in thousands, except per share data)

	12 Weeks Ended	
	March 19, 2013	March 20, 2012
Income from continuing operations	\$ 3,569	\$ 4,898
Discontinued operations, net of income tax benefit		87
<b>Net income</b>	<b>\$ 3,569</b>	<b>\$ 4,985</b>
Shares:		
Weighted average number of common shares outstanding	23,794,667	17,994,667
Dilutive shares		
<b>Total Diluted Shares</b>	<b>23,794,667</b>	<b>17,994,667</b>
Basic and diluted income per common share:		
Continuing operations	\$ 0.15	\$ 0.27
Discontinued operations		0.01
<b>Basic and diluted income per share</b>	<b>\$ 0.15</b>	<b>\$ 0.28</b>

**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 date of grant. The 2012 Plan has 2,232,800 shares authorized for issuance under the plan. There are 796,000 shares of common stock issuable upon exercise of outstanding options at March 19, 2013, and 1,436,800 shares available for future grants.

The Company recorded \$228,000 in total stock option compensation cost during the 12 weeks ended March 19, 2013 which was expensed primarily in general and administrative costs.

**Table of Contents**

The following table summarizes stock option activity during the period ended March 19, 2013:

	Shares	12 Weeks Ended March 19, 2013 Weighted average exercise price	12 Weeks Ended March 19, 2013 Weighted average Remaining Contractual Term	Aggregate Intrinsic Value (\$000 s)
Outstanding at beginning of year	825,000	13.09		
Granted				
Exercised				
Forfeited	(29,000)	13.00		
Outstanding at end of period	796,000	\$ 13.10	9.4 years	\$ 3,162
Options exercisable at end of period		\$		\$

A summary of the status of non-vested shares as of March 19, 2013 and changes during the first quarter of fiscal 2013 is presented below:

	Shares	12 Weeks Ended March 19, 2013 Weighted average Grant- Date Fair Value
Non-vested shares at beginning of year	825,000	\$ 4.93
Granted		
Vested		
Forfeited	(29,000)	4.82
Non-vested shares at end of period	796,000	\$ 4.94

As of March 19, 2013, there was \$3.3 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.

**Table of Contents**

**5. RELATED PARTY TRANSACTIONS**

In connection with the March 2013 secondary public offering, certain executives of the Company earned transaction bonuses totaling approximately \$1.8 million. 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 March 2013 secondary public offering. As these bonuses were 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. The \$1.8 million was recorded as an expense to the Company and capital contribution by Wagon in the first quarter of fiscal 2013. Subsequent to the end of the first quarter of fiscal 2013, Wagon contributed approximately \$1.8 million which was used by the Company to pay these bonuses.

In fiscal 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. General and administrative expenses include charges of approximately \$18,000 for these services for the 12 weeks ended March 19, 2013.

**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, as defined in the credit agreement, and minimum fixed charge coverage, 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 March 19, 2013 and December 25, 2012.

As of March 19, 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, including \$761,000 in outstanding letters of credit commitments drawn on the facility.

**7. INCOME TAXES**

The effective income tax rate was 26.9% and 30.3% in the 12 weeks ended March 19, 2013 and March 20, 2012, respectively. 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 decrease in the effective tax rate for the 12 weeks ended March 19, 2013 is primarily attributable to the impact of the deductions related to the public offering transaction bonuses described in Note 5, which reduced income before income taxes and increased the impacts of the FICA tip and other credits.

**Table of Contents****8. FAIR VALUE MEASUREMENT**

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 March 19, 2013 and December 25, 2012 (in thousands):

	Level	Fair Value Measurements	
		March 19, 2013	December 25, 2012
Deferred compensation plan investments (life insurance policies)	2	\$ 8,849	\$ 5,586
Deferred compensation plan investments (mutual funds)	1	\$	\$ 2,216
Deferred compensation plan liabilities	2	\$ (9,243)	\$ (8,415)

There were no transfers among levels within the fair-value hierarchy during the first quarter of fiscal 2013 and fiscal 2012. The carrying value of the Company's cash and cash equivalents, restricted cash, and accounts payable approximate fair value because of their short term nature.

**9. SEGMENT REPORTING**

The Company operates the Del Frisco's, Sullivan's, and Grille brands as operating segments. The 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 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.

**Table of Contents**

The following table presents information about reportable segments for the 12 weeks ended March 19, 2013 and March 20, 2012 and as of March 19, 2013 and March 20, 2012. (in thousands):

	12 Weeks Ended March 19, 2013				Consolidated
	Del Frisco's	Sullivan's	Grille	Corporate	
Revenues	\$ 32,285	\$ 19,898	\$ 7,619	\$	\$ 59,802
Restaurant-level EBITDA	8,754	3,640	1,535		13,929
Capital expenditures	550	560	4,084	30	5,224
Property and equipment	70,892	42,777	29,912	1,447	145,028

	12 Weeks Ended March 20, 2012				Consolidated
	Del Frisco's	Sullivan's	Grille	Corporate	
Revenues	\$ 28,323	\$ 20,595	\$ 4,024	\$	\$ 52,942
Restaurant-level EBITDA	8,149	4,379	878		13,406
Capital expenditures	245	1,297	2,203	28	3,773
Property and equipment	56,664	42,683	12,175	1,090	112,612

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, 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	
	March 19, 2013	March 20, 2012
Restaurant-level EBITDA	\$ 13,929	\$ 13,406
Less pre-opening costs	591	70
Less general and administrative costs	3,775	2,646
Less management and accounting fees paid to related party		744
Less secondary public offering costs	412	
Less public offering transaction bonuses	1,805	
Less depreciation and amortization	2,442	1,694
Operating income	\$ 4,904	\$ 8,252



**Table of Contents****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 March 19, 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 March 19, 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 \$1.9 million, respectively.

At December 25, 2012 and March 19, 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.

**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 weeks ended March 20, 2012 (in thousands):

	<b>12 Weeks Ended March 20, 2012</b>
Revenues	\$ 736
Income before income tax	127
Income tax expense	(40)
Income from discontinued operations, net of income tax expense	\$ 87

**Table of Contents**

**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 (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 these 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, 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 35 restaurants in 19 states. Of the 35 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 six Grille restaurants. During the first fiscal quarter of 2013 we opened one new Grille location in Houston, Texas.

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 three to five restaurants annually, generally composed of one Del Frisco's and two to four 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.



## **Table of Contents**

*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 29 restaurants at March 20, 2012 and March 19, 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, 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.

**Table of Contents**

**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 weeks ended March 19, 2013 and March 20, 2012.

	12 Weeks Ended			
	March 19, 2013		March 20, 2012	
Revenues	\$ 59,802	100.0%	\$ 52,942	100.0%
Costs and expenses:				
Costs of sales	18,420	30.8%	16,367	30.9%
Restaurant operating expenses	26,545	44.4%	22,316	42.2%
Marketing and advertising costs	908	1.5%	853	1.6%
Pre-opening costs	591	1.0%	70	0.1%
General and administrative costs	3,775	6.3%	2,646	5.0%
Management and accounting fees paid to related party		0.0%	744	1.4%
Secondary public offering costs	412	0.7%		0.0%
Public offering transaction bonuses	1,805	3.0%		0.0%
Depreciation and amortization	2,442	4.1%	1,694	3.2%
Operating income	4,904	8.2%	8,252	15.6%
Other income (expense), net:				
Interest expense	(24)	0.0%	(1,221)	2.3%
Other		0.0%	(3)	0.0%
Income from continuing operations before income taxes	4,880	8.2%	7,028	13.3%
Income tax expense	1,311	2.2%	2,130	4.0%
Net income from continuing operations	\$ 3,569	6.0%	\$ 4,898	9.3%

**Fiscal Quarter Ended March 19, 2013 (12 weeks) Compared to the Fiscal Quarter Ended March 20, 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 March 19, 2013 and March 20, 2012.

	12 Weeks Ended March 19, 2013							
	Del Frisco's		Sullivan's		Grille		Consolidated	
Revenues	\$ 32,285	100.0%	\$ 19,898	100.0%	\$ 7,619	100.0%	\$ 59,802	100.0%
Costs and expenses:								
Cost of sales	10,155	31.5%	6,127	30.8%	2,138	28.1%	18,420	30.8%
Restaurant operating expenses	12,948	40.1%	9,743	49.0%	3,854	50.6%	26,545	44.4%
Marketing and advertising costs	428	1.3%	388	1.9%	92	1.2%	908	1.5%
Restaurant-level EBITDA	8,754	27.1%	3,640	18.3%	1,535	20.1%	13,929	23.3%
Pre-opening costs							591	1.0%
General and administrative							3,775	6.3%

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Secondary public offering costs				412	0.7%
Public offering transaction bonuses				1,805	3.0%
Depreciation and amortization				2,442	4.1%
Operating Income				\$ 4,904	8.2%
Restaurant operating weeks	120	228	61	409	
Average unit volume	\$ 3,229	\$ 1,047	\$ 1,499	\$ 1,755	

**Table of Contents**

	12 Weeks Ended March 20, 2012							
	Del Frisco's		Sullivan's		Grille		Consolidated	
Revenues	\$ 28,323	100.0%	\$ 20,595	100.0%	\$ 4,024	100.0%	\$ 52,942	100.0%
Costs and expenses:								
Cost of sales	8,975	31.7%	6,287	30.5%	1,105	27.5%	16,367	30.9%
Restaurant operating expenses	10,805	38.1%	9,522	46.2%	1,989	49.4%	22,316	42.2%
Marketing and advertising costs	394	1.4%	407	2.0%	52	1.3%	853	1.6%
Restaurant-level EBITDA	8,149	28.8%	4,379	21.3%	878	21.8%	13,406	25.3%
Pre-opening costs							70	0.1%
General and administrative							2,646	5.0%
Management and accounting fees paid to related party							744	1.4%
Depreciation and amortization							1,694	3.2%
Operating Income							\$ 8,252	15.6%

Restaurant operating weeks	108	228	24	360
Average unit volume	\$ 3,147	\$ 1,084	\$ 2,012	\$ 1,765

*Revenues.* Consolidated revenues increased \$6.9 million, or 13.0%, to \$59.8 million in the first quarter of fiscal 2013 from \$52.9 million in the first quarter of fiscal 2012. This increase was due to an additional 49 operating weeks provided by the opening of five restaurants since the first quarter of 2012, which provided an additional \$7.3 million in revenues. The increase in revenues from additional operating weeks was partially offset by a 0.5% decrease in total comparable restaurant sales comprised of a 0.7% decrease in customer counts and a 0.2% increase in average check.

Del Frisco's revenues increased \$4.0 million, or 14.1%, to \$32.3 million in the first quarter of fiscal 2013 from \$28.3 million in the first quarter of fiscal 2012. This increase was primarily due to an additional 12 operating weeks provided by the opening of one restaurant since the first quarter of 2012, as well as a 1.9% increase in total comparable restaurant sales comprised of a 1.4% increase in customer counts and a 0.5% increase in average check.

Sullivan's revenues decreased \$0.7 million, or 3.4%, to \$19.9 million in the first quarter of fiscal 2013 from \$20.6 million in the first quarter of fiscal 2012. This decrease was due to a 4.0% decrease in total comparable restaurant sales comprised of a 2.6% decrease in customer counts and a 1.4% decrease in average check.

Grille revenues increased \$3.6 million, or 90.0%, to \$7.6 million in the first quarter of fiscal 2013 from \$4.0 million in the first quarter of fiscal 2012. This increase was due to an additional 37 operating weeks provided by the opening of four restaurants since the first quarter of 2012.

*Cost of Sales.* Consolidated cost of sales increased \$2.0 million, or 12.2%, to \$18.4 million in the first quarter of fiscal 2013 from \$16.4 million in the first quarter of fiscal 2012. This increase was primarily due to an additional 49 operating weeks in the first quarter of fiscal 2013 as compared to the first quarter of fiscal 2012 from the five restaurants opened since the first quarter of 2012. As a percentage of consolidated revenues, consolidated cost of sales decreased to 30.8% during the first quarter of fiscal 2013 from 30.9% in the first quarter of fiscal 2012.

As a percentage of revenues, Del Frisco's cost of sales decreased to 31.5% during the first quarter of fiscal 2013 from 31.7% in the first 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 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 quarter of fiscal 2013 from 30.5% in the first quarter 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 50% of the increase, and beef costs, accounting for approximately 50% of the increase, which were partially offset by favorable seafood and alcoholic beverage costs.

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As a percentage of revenues, Grille cost of sales increased to 28.1% during the first quarter of fiscal 2013 from 27.5% in the first quarter of fiscal 2012. This increase in cost of sales, as a percentage of revenues, was primarily due to new restaurant opening inefficiencies.

*Restaurant Operating Expenses.* Consolidated restaurant operating expenses increased \$4.2 million, or 18.8%, to \$26.5 million in the first quarter of fiscal 2013 from \$22.3 million in the first quarter of fiscal 2012. This increase was primarily due to an additional 49 operating weeks in the first quarter of fiscal 2013 as compared to the first quarter of fiscal 2012 from the five restaurants opened since the first quarter of 2012. As a percentage of consolidated revenues, consolidated restaurant operating expenses increased to 44.4% in the first quarter of fiscal 2013 from 42.2% in the first quarter of fiscal 2012.



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**Table of Contents**

As a percentage of revenues, Del Frisco's restaurant operating expenses increased to 40.1% during the first quarter of fiscal 2013 from 38.1% in the first quarter of fiscal 2012. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher direct and indirect labor costs, accounting for approximately 70% of the increase, and higher other restaurant operating costs, accounting for approximately 30% 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 a percentage of revenues, Sullivan's restaurant operating expenses increased to 49.0% during the first quarter of fiscal 2013 from 46.2% in the first quarter of fiscal 2012. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher direct and indirect labor costs, accounting for approximately 60% of the increase, and higher other restaurant operating costs, accounting for approximately 40% of the increase. These increases were due in part to the deleveraging of certain fixed and semi-variable costs on lower revenues.

As a percentage of revenues, Grille restaurant operating expenses increased to 50.6% during the first quarter of fiscal 2013 from 49.4% in the first quarter 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 were consistent at \$0.9 million in the first quarter of fiscal 2013 and 2012. As a percentage of consolidated revenues, consolidated marketing and advertising costs decreased slightly to 1.5% in the first quarter of fiscal 2013 from 1.6% in the first quarter of fiscal 2012.

As a percentage of revenues, Del Frisco's marketing and advertising costs decreased to 1.3% during the first quarter of fiscal 2013 from 1.4% in the first quarter of fiscal 2012. The decrease in marketing and advertising costs, as a percentage of revenues, was primarily due to lower in-restaurant advertising expenses, partially offset by higher public relations and broadcast media spending.

As a percentage of revenues, Sullivan's marketing and advertising costs decreased to 1.9% during the first quarter of fiscal 2013 from 2.0% in the first quarter of fiscal 2012, which was the result of lower spending for in-restaurant advertising expenses partially offset by higher outside promotions costs.

As a percentage of revenues, Grille marketing and advertising costs decreased to 1.2% during the first quarter of fiscal 2013 from 1.3% in the first quarter of fiscal 2012. The decrease in marketing and advertising costs, as a percentage of revenues, was primarily due to lower in-restaurant advertising and broadcast media expenses, partially offset by higher public relations spending.

*Pre-opening Costs.* Pre-opening costs increased by \$0.5 million to \$0.6 million in the first quarter of fiscal 2013 from \$0.1 million in the first quarter of fiscal 2012 due to higher pre-opening costs incurred during the first quarter of fiscal 2013 related to the opening of one Grille restaurant during March 2013 and pre-opening expenses from one additional restaurant expected to open during the summer of 2013, compared to no openings occurring during the first 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 \$1.2 million, or 46.2%, to \$3.8 million in the first quarter of fiscal 2013 from \$2.6 million in the first 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, as well as increased restaurant management training expenses. In addition, we incurred approximately \$0.4 million in additional public company related expenses in the first quarter of fiscal 2013 over the first quarter of fiscal 2012, including \$0.2 million in non-cash stock compensation expense. As a percentage of revenues, general and administrative costs increased to 6.3% in the first quarter of fiscal 2013 from 5.0% in the first 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 \$0.7 million in the first quarter 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.

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

*Public Offering Transaction Bonuses.* Under letter agreements, 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 bonuses. As these bonuses were contingent upon employment with the Company, the Company is required to

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record the expense of these bonuses and recognized the funding by Wagon as additional paid in capital. Associated with the completion of the secondary public offering in the first quarter of fiscal 2013, the Company recorded \$1.8 million in transaction bonuses expense under the transaction bonus agreements.

*Depreciation and Amortization.* Depreciation and amortization increased \$0.7 million, or 41.2%, to \$2.4 million in the first quarter of fiscal 2013 from \$1.7 million in the first 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 five new restaurants as well as for existing restaurants that were remodeled during 2012 and the first quarter of fiscal 2013.

**Table of Contents**

*Interest Expense.* Interest expense decreased \$1.2 million to \$24,000 in the first quarter of fiscal 2013 from \$1.2 million in the first quarter of fiscal 2012. This decrease is attributable to the payoff of previously outstanding debt with the proceeds from the initial public offering and there being no outstanding borrowings during the first quarter of 2013 under the revolving credit facility that the Company entered into in October 2012.

*Income Tax Expense.* The effective income tax rate was 26.9% and 30.3% in the first quarter of fiscal 2013 and the first quarter of fiscal 2012, respectively. 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 decrease in the effective tax rate is primarily attributable to the impact of certain transactions in the first quarter of fiscal 2013, specifically the public offering transaction bonus deductions, which reduced income before income taxes and increased the impacts of the FICA tip and other credits.

**Table of Contents****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 March 19, 2013, we had cash and cash equivalents of approximately \$9.8 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 12 weeks ended March 19, 2013 and March 20, 2012 (in thousands):

	12 Weeks Ended	
	March 19, 2013	March 20, 2012
Net cash provided by operating activities	\$ 4,282	\$ 3,323
Net cash used in investing activities	(5,236)	(3,770)
Net cash used in financing activities		(5,000)
Net decrease in cash and cash equivalents	\$ (954)	\$ (5,447)

*Operating Activities.* Cash flows provided by operating activities was \$4.3 million for the 12 weeks ended March 19, 2013, consisting primarily of net income of \$3.6 million, adjustments for depreciation, amortization and other non-cash charges totaling \$2.6 million, a net increase in cash of \$2.3 million resulting from a decrease in other current assets and the collection of lease incentives receivable, and a \$2.6 million increase in net deferred income tax liability. These cash inflows were partially offset by decreases in accounts payable, accrued liabilities and income taxes payable totaling \$7.0 million. Cash flows provided by operating activities was \$3.3 million for the 12 weeks ended March 20, 2012, consisting primarily of net income of \$5.0 million, adjustments for depreciation, amortization and other non-cash charges totaling \$1.8 million, and a net increase in cash of \$1.3 million resulting from a decrease in inventories, other current assets and income taxes payable. These cash inflows were partially offset by decreases in accounts payable of \$1.8 million, other liabilities of \$2.6 million and deferred income taxes of \$0.5 million.

*Investing Activities.* Net cash used in investing activities for the 12 weeks ended March 19, 2013 was \$5.2 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 in progress and scheduled to open in the summer of 2013, and remodel activity of existing restaurants. Net cash used in investing activities for the 12 weeks ended March 20, 2012 was \$3.8 million, consisting primarily of purchases of property and equipment. These purchases primarily related to construction of new Grille restaurants opened during the summer of 2012, and remodel activity of existing restaurants.

*Financing Activities.* There was no cash used in or provided by financing activities for the 12 weeks ended March 19, 2013. Net cash used in financing activities for the 12 weeks ended March 20, 2012 was \$5.0 million consisting of principal payments 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 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 March 19, 2013, we were in compliance with each of these tests. The credit facility also contains

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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 March 19, 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.

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## **Table of Contents**

### **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 March 19, 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 March 19, 2013, the maximum potential amount of future lease payments we could be required to make as a result of the guarantees was \$1.9 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.

### **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.

**Table of Contents**

**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.



**Table of Contents**

**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**

<b>Exhibit Number</b>	<b>Description</b>
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	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

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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

**Table of Contents**

**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: April 30, 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)