Del Frisco's Restaurant Group, Inc.
Form 10-K
March 11, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 25, 2018
OR
o 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)

Delaware	20-8453116
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2900 Ranch Trail, Irving, TX	75063
(Address of principal executive offices)	(Zip code)

(469) 913-1845
(Registrant’s telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each Exchange on which registered
Common Stock, $0.001 par value per share	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. o Yes x No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. o Yes x No
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. x Yes o No
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). x Yes o No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See definition of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of June 26, 2018, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of the registrant’s common stock, $0.001 par value per share, held by non-affiliates was approximately $266.0 million.

As of March 6, 2019, 33,358,292 shares of the registrant’s common stock, $0.001 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Definitive Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the registrant’s fiscal year ended December 25, 2018 are incorporated by reference in Part III of this Annual Report on Form 10-K.

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FORWARD LOOKING STATEMENTS

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, 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," "should," "could" 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. Additional important factors that could cause actual results to differ materially from those in the forward-looking statements include regional, national or global political, economic, business, competitive, market and regulatory conditions and include, but are not limited to, the following:

- economic conditions (including customer spending patterns);
- our ability to compete;
- our ability to implement our growth strategy, including opening new restaurants, operating them profitably and accelerating development of our brands;
- customer experiences or negative publicity surrounding our restaurants;
- pricing and deliveries of food and other supplies;
- changes in consumer tastes and spending patterns;
- laws and regulations affecting labor and employee benefit costs, including increases in state and federally mandated minimum wages;
- labor shortages;
- general financial and credit market conditions;
- fixed rental payments and the terms of our indebtedness;
- cyber security customer information;
- the Barteca Acquisition;
- valuation allowance; and
- other factors described in "Item 1A. Risk Factors" included elsewhere in this Annual Report.

All forward-looking statements in this report, or that are made on our behalf by our directors, officers or employees related to the information contained herein, apply only as of the date of this report or as of the date they were made. We undertake no obligation, except as required by applicable law, to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

PART I

Item 1. Business

We were initially organized as a Delaware limited liability company on June 30, 2006 in connection with the acquisition by our former principal stockholder of Lone Star Steakhouse & Saloon, Inc., which owned the Del Frisco's and Sullivan's restaurant concepts. Following the acquisition, the company was restructured to separate certain other Lone Star Steakhouse & Saloon concepts by, among other things, spinning off the subsidiaries that owned and operated those concepts. We converted from a Delaware limited liability company to a Delaware corporation in July 2012 in connection with our initial public offering. Unless the context otherwise indicates, all references to ("we," "us," "our," "Del Frisco's" or the "Company") refer to Del Frisco's Restaurant Group, Inc. and its subsidiaries.

On June 27, 2018, we completed the acquisition (the "Barteca Acquisition") of Barteca with two restaurant concepts: Barcelona Wine Bar ("Barcelona") and bartaco. We believe that Barcelona and bartaco are innovative concepts, which are highly complementary and will provide Del Frisco's portfolio with significant growth and development opportunities, enabling us to capture market share in the experiential dining segment, while mitigating the effects of seasonality and the risk of economic downturns to our restaurant portfolio.

On September 21, 2018, we sold all of the outstanding equity interests in our Sullivan's Steakhouse business ("Sullivan's") to Sullivan's Holding LLC, a Delaware limited liability company and affiliate of Romano's Macaroni Grill.

Our Company

We develop, own and operate four contemporary and complementary restaurants: Del Frisco's Double Eagle Steakhouse ("Double Eagle"), Barcelona, bartaco, and Del Frisco's Grille ("Grille"). We are a leader in the experiential dining segment based on average unit volume ("AUV") and restaurant-level EBITDA margin. We believe the success of our brands reflect relentless and consistent execution across all aspects of the dining experience, from the formulation of proprietary recipes to the procurement and presentation of high quality menu items and delivery of a positive guest experience that leaves a lasting impression. We currently operate 73 restaurants in 16 states and the District of Columbia. The Double Eagle and Grille are positioned within the fine dining segment and are designed to appeal to both business and local dining customers. Our Double Eagle restaurants are sited in urban locations to target customers seeking a "destination dining" experience, while our Grille restaurants are intended to appeal to a broader demographic, allowing them to be located either in urban areas or in close proximity to affluent residential neighborhoods. The Double Eagle and Grille offer steaks as well as other menu selections, such as chops and fresh seafood. These menu selections are complemented by an extensive, award-winning wine list. Barcelona and bartaco are designed to provide guests with a polished experience by serving seasonal flavorful food with welcoming service in an attractive and lively atmosphere. By offering this experience at an affordable price point, we believe this generates broad appeal across a wide guest demographic. This broad appeal has enabled Barcelona and bartaco to expand to locations in a variety of markets, including urban, tertiary and college towns. We believe our success reflects consistent execution across all aspects of the dining experience, from the formulation of proprietary recipes to the procurement and presentation of high quality menu items and delivery of a positive customer experience.

Del Frisco's Double Eagle Steakhouse

We believe the Del Frisco's Double Eagle Steakhouse is one of the premier steakhouse concepts in the United States. The Del Frisco's Double Eagle brand is defined by its menu, which includes USDA Prime grade, wet-aged and dry-aged steaks hand-cut at the time of order and a range of other high-quality offerings, including wagyu, prime dry-aged lamb, fresh seafood, and signature side dishes and desserts. It is also distinguished by its "swarming service," whereby customers are served simultaneously by multiple servers. Each restaurant has a sommelier to guide diners through an extensive, award-winning wine list and our bartenders specialize in hand-shaken martinis and crafted cocktails. Del Frisco's Double Eagle restaurants target customers seeking a full-service, fine dining steakhouse experience. We believe the décor and ambiance, with both contemporary and classic designs, enhance our customers' experience and differentiate Del Frisco's Double Eagles from other upscale steakhouse concepts. We currently operate 16 Double Eagle steakhouses in eleven states and the District of Columbia. These restaurants range in size from 11,000 to 24,000 square feet with seating capacity for at least 300 people. Additional Double Eagle openings are planned over the next year, and we anticipate they will range in size from 12,000 to 16,000 square feet. AUVs per Double Eagle for locations open the entire year were $13.6 million for the fiscal year ended December 25, 2018. During the same period, the average check at these Double Eagle locations was $123.

Barcelona Wine Bar

Founded in 1996, Barcelona Wine Bar is a neighborhood Spanish tapas bar that offers simple and elegant small plates and an award-winning wine list. The seasonal, high quality menu combines bold flavors with unique specialties from Spain and the Mediterranean. Barcelona has a superior Spanish wine program and offers an extensive selection of wines from Spain and South America, including over 40 wines by the glass. In 2018, all Barcelona restaurants won Wine Spectator's "Best Of" Award of Excellence. We design our restaurants with the goal of creating a timeless, sophisticated and vibrant atmosphere. We currently operate 15 locations in seven states and the District of Columbia. Our typical restaurant size is approximately 4,500 square feet. AUVs per Barcelona for locations open the entire year were $4.5 million for the fiscal year ended December 25, 2018. During the same period, the average check at these Barcelona locations was $34.

bartaco

Inspired by a healthy, outdoor lifestyle, the first bartaco location was opened in 2010. The cuisine pulls from a broad palate of bold, spicy flavors from the Mediterranean, Asia and beyond, while our handcrafted cocktails are made with artisanal spirits and freshly-squeezed juices. We aim to create the comfortable yet energetic atmosphere of a rustic beach shack in our restaurants. The minimalistic décor is light and breezy, featuring reclaimed wood, hand-woven basket lights and painted tiles. In addition, our outdoor patios feature lively bars, fireplaces and inviting seating options. We currently operate 18 locations in ten states. Our typical restaurant size is approximately 4,500 square feet. bartaco combines fresh, upscale street food with a coastal vibe in a relaxed environment. AUVs per bartaco for locations open the entire year were $5.0 million for the fiscal year ended December 25, 2018. During the same period, the average check at these bartaco locations was $23.

Del Frisco's Grille

We developed the Grille in 2011 to take advantage of the positioning of the Del Frisco's brand and to provide greater potential for expansion due to its smaller size, lower buildout cost and more diverse menu. The Grille has a refreshing, modern menu that draws inspiration from bold flavors and fresh ingredients. Borrowing from the Del Frisco's heritage, it appeals broadly to both business and casual diners with the same high quality Double Eagle prime aged steaks, top selling signature menu items and a broad selection of the same quality wines. In addition, the Grille has an extensive menu creating new twists on American comfort classics, including regional flavors and locally sourced ingredients. We believe the ambiance of the concept appeals to a wide range of customers seeking a less formal atmosphere for their dining occasions. Each Grille features a bar that is the centerpiece for a great night out. In 2017, we carried out an in-depth brand analysis with a leading third party consultant to assist us in better understanding the Grille concept's growth opportunities and target guests. We currently operate 24 Grilles in eleven states and the District of Columbia. AUVs per Grille restaurant for locations open the entire year were $5.3 million for the fiscal year ended December 25, 2018. During the same period, the average check at these Grille locations was $51.

Site Selection and Development

We believe site selection is critical for the potential success of our restaurants. We have partnered with a third party master broker to source potential sites against a set of clear criteria for each Brand. We carefully consider growth opportunities for each of our restaurant concepts and utilize a customized approach for each concept when selecting and prioritizing markets for expansion. We perform comprehensive demographic and customer profile studies to evaluate and rationalize the trade areas and sites within each desired market. We leverage a significant number of sources to produce extensive research and analysis on the dynamics of the local area, the specific attributes of each site considered and the unit economics we believe we can realize. Our evaluation process also includes working with a leading third party spatial analytics company, which has developed a customized model to determine the most attractive locations for each of our Brands and produces a predictive sales scoring package for specific sites. A Real Estate Committee, consisting of members of the Board and senior management, visits, assesses and approves each site against a set of clear criteria.

For the Double Eagle brand, we focus primarily on sites in urban locations that allow us to easily access business clientele and customers seeking a premium dining experience. Many of our Double Eagle restaurants are in marquee locations, including waterfront property, popular shopping districts and active business centers. For our Barcelona and bartaco concepts, we focus on a mix of urban/metropolitan and suburban core locations. We seek sites that allow us to establish a neighborhood feel where guests come to rely on us as their go to dining destination across multiple dayparts. Wealthier, more sophisticated college towns have proven to be key target markets. For our Grille concept, we target sites in high traffic urban and suburban locations in close proximity to affluent residential areas. Our site assessment analysis includes three primary components: customer profiling (demographics, lifestyle segmentation, spend metrics, clustering/density analysis), trade area and site evaluation (physical inspection, competitive benchmarking, analysis of business generators/traffic patterns), and financial modeling (square footage and seat count analysis, predictive sales analytics, margin evaluations, investment cost and return metrics). Understanding our customers is an essential element of our market planning and site selection processes. We have developed a customer profile model for each of our concepts to help guide our development efforts and educate our development partners.

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We look for the following minimum criteria in our site trade areas:

Population[(a)]	Daytime Population[(a)]	Average HH Income	Priority Age Blocks[(b)]	Traffic Counts[(c)]
100,000+	150,000+	$100,000+	35-44; 45-54; 55-64	40,000+
50,000+	100,000+	$100,000+	35-44	30,000+
40,000	67,500	$100,000+	35-44	25,000+
75,000+	100,000+	$75,000+	25-34; 35-44; 45-54	25,000+

(a)Represents the population within a customized target area generally with less than a 20-minute drive time.
(b)Represents the targeted age demographics for a prospective site.
(c)Represents the targeted average daily vehicle traffic for a prospective site.

We expect the size of new Double Eagle restaurants to range from 12,000 to 16,000 square feet, new Barcelona and bartaco restaurants to be approximately 4,500 square feet, and new Grille restaurants to range from 6,500 to 8,000 square feet. For the opening of a new restaurant, we measure our cash investment costs net of landlord contributions and equipment financing and including pre-opening costs. We target average cash investment costs of $8.0 million to $9.0 million for a new Double Eagle, $3.1 million to $3.5 million for a new Barcelona, $2.5 million to $3.0 million for a new bartaco, and $5.0 million to $6.0 million for a new Grille. For our three primary growth brands the Double Eagle, Barcelona and bartaco, we target a cash-on-cash return beginning in the third operating year of at least 40% (excluding pre-opening expense). To achieve these returns, we target restaurant-level EBITDA margins of 24% to 27% for the Double Eagle, 23% to 26% for Barcelona and 24% to 27% for bartaco.

We believe there are opportunities to open eight to twelve new restaurants annually, generally composed of two to three Double Eagle restaurants, two to three Barcelona restaurants and four to six bartaco restaurants. New openings of our Double Eagle, Barcelona and bartaco concepts will serve as the primary driver of new unit growth in the near term. During the fiscal year ending on December 31, 2019, we expect to open one Double Eagle restaurant, two to three Barcelona restaurants and three to four bartaco restaurants. We expect to open no Grilles in 2019 or 2020 as we evaluate the performance of 2018 openings which incorporate lessons learned from our 2017 consulting project. It generally takes 9 to 12 months after the signing of a lease to complete construction and open a new restaurant. Additional time is sometimes required to obtain certain government approvals, permits and licenses, such as liquor licenses.

Restaurant Operations and Management

Our restaurants have a distinctive combination of food, atmosphere and service in an upscale environment. We believe that our success reflects the consistency of our execution across all aspects of the dining experience, from the formulation of proprietary recipes, to the procurement and presentation of high quality menu items and the delivery of a positive customer experience. We strive to provide quality through a carefully controlled and established supply chain and proven preparation techniques.

Depending on the volume of each restaurant, our typical restaurant-level management team ranges from 4 to 10 people including one general manager, one executive chef and a team of assistant managers and sous chefs. We also have an experienced team of regional directors to oversee operations at multiple restaurants. To ensure that each restaurant and its employees meet our demanding performance requirements, we have developed a set of strict operational standards that are followed in all facets of our operations. For example, these standards are used to develop corporate recipes, many of which are proprietary, that are adhered to across all of our restaurants. These standards also mandate a quality control process for the menu items in each of our restaurants that our chefs and managers oversee before each shift. This quality control process includes the full preparation of each item on our menu, other than our steaks, and the testing of each of these items for presentation, taste, portion size and temperature before they are prepared for our customers. Items that do not meet our rigorous standards are re-made until they do. We believe this process of full preparation for testing differentiates us from our competition.

The consistent execution at our restaurants is a result of the extensive training and supervision of our employees. Our general managers are typically required to undergo at least eight to ten weeks of initial training in food quality, customer service, alcohol beverage service, liquor liability avoidance and employee retention programs. Each of our new hourly employees also typically participates in a training program during which the employee works under the close supervision of his or her general manager. Our chefs and their assistants receive extensive training in food quality, food supply management and kitchen maintenance. All of our employees are trained to uphold each concept's distinct characteristics and our overall values and operating philosophy.

Our training programs are administered by the general manager at each restaurant and supervised by our chief people officer and a dedicated training director for each concept. This training team ensures that all new general managers have developed a comprehensive set of tools that they can use to manage their restaurant, including employee selection, performance management and wage and hourly compliance. We also require each general manager to obtain a mandatory internal certification in areas of the kitchen, dining room and bar area. Our training team also supports new restaurant openings. Each of our concepts have developed a streamlined training program that ensures employees opening a new restaurant function as a cohesive team and maintain our high operational and food preparation standards. As a result, our corporate and concept-level infrastructure supports our growth strategy, allowing us to successfully replicate our standards in new restaurants.

Sourcing and Supply Chain

Our ability to ensure a consistent supply of safe, high-quality food and supplies at competitive prices to all our restaurant brands depends on reliable sources of procurement. Our supply chain team along with a third-party consultant source product from approved local, regional and national suppliers. All suppliers must meet our food safety and quality standard requirements. We continually research and evaluate products and supplies to ensure high quality meat, seafood, produce and other menu ingredients. The company purchases beef from two main suppliers: Stock Yards, a division of U.S. Foods, Inc., and Halpern's, a wholly owned subsidiary of Gordon Foodservice, Inc. In addition, the company has a strong distribution relationship with Distribution Market Advantage, Inc., on a national basis to ensure that our restaurants receive a constant supply of products. Supply chain management negotiates directly with suppliers of meat, seafood, produce and certain other food and beverage products to ensure availability of supply, food safety, consistent quality and freshness.

Our Culinary leadership and supply chain establish strict product specifications for items purchased at the local, regional and national levels. Purchasing at each restaurant is directed primarily by each restaurant's chef, who is trained in our purchasing philosophy and specifications, and who works with regional and corporate managers to ensure consistent products. Many of our restaurants also have an in-house sommelier responsible for purchasing wines based on customer preferences, market availability and menu content.

We have not experienced any significant delays in receiving restaurant supplies and equipment. Although we currently do not engage in futures contracts or other financial risk management strategies with respect to potential price fluctuations, from time to time, we may opportunistically enter into fixed price beef supply contracts or contracts for other food products or consider other risk management strategies with regard to our meat and other food costs to minimize the impact of potential price fluctuations. This practice could help stabilize our food costs during times of fluctuating prices, although there can be no assurances that this will occur.

Quality Assurance

To ensure that all restaurants provide safe, high-quality food in a clean and safe environment, we purchase only products from approved sources that meet or exceed our product specifications and standards. We rely on independent third parties to inspect and evaluate our suppliers and distributors. Suppliers are required to maintain sound manufacturing practices and operate with the comprehensive Hazard Analysis and Critical Control Point (HACCP) food safety programs and risk-based preventative controls adopted by the U.S. Food and Drug Administration. These programs focus on preventing hazards that could cause food-borne illnesses by applying scientifically-based controls to analyze hazards, identify and monitor critical control points, and establish corrective actions when monitoring shows that a critical limit has not been met. Our third-party auditors visit each restaurant regularly throughout the year

to review food handling and to provide education and training in food safety and sanitation.
Information Technology and Cybersecurity
To provide industry best guest experience within our brands, Del Frisco’s Restaurant Group leverages enterprise-class technology. Implemented technologies act as an enabler to assist with executing our strategies. Technologies focus on enabling the business to achieve visibility and to effect improvements in areas of: financial control, cost management, guest experience and team member effectiveness, in order to drive operational excellence.
Del Frisco’s Restaurant Group maintains internal support through our Restaurant Support Center, based in Irving, Texas, for all restaurant level technologies, for all brands. Secondary support is regularly provided by the technologies service provider via a

service level agreement. Del Frisco's Restaurant Group leverages various technologies to help drive operational excellence. In utilizing such tools, the access to near real-time data is essential for in-moment management. To support restaurant level tools, encrypted data is transmitted throughout the day and night, providing timely information to all levels of the business. Our information is transmitted in a secure method to protect both our data and computing environment. We guard against business interruption by maintaining a disaster recovery plan, which includes storing critical business information via a hybrid strategy which includes on-site, cloud environments, replicated virtual environments, and testing plan. Del Frisco's Restaurant Group predominantly uses commercially available software and hardware, each supported by enterprise class service providers.

Cybersecurity and data protection remain as an area of focus for Del Frisco's Restaurant Group. In 2018, we invested in a company-wide network reengineering initiative. Firewalls, switches and circuits were all upgraded and redesigned to ensure internal and external systems maintained strict segmentation and policies to safeguard data. Del Frisco's performs quarterly scans and reviews intrusion dashboards to proactively determine if data is at risk. Additionally, Del Frisco's subscribes to outside services to tokenize credit card transactions and customer data. We remain constantly vigilant of emerging risks and ever-changing compliance requirements to ensure we make strategic investments to protect company, customer and team member data.

Marketing and Advertising

We believe that our commitment to providing quality food, hospitality, service and a high level of value for each price point is an effective approach to attracting customers and maintaining their loyalty. We use a variety of national, regional and local marketing and public relations techniques intended to maintain and build our customer traffic, maintain and enhance our concepts' images and continually improve and refine our upscale experience. In addition, local restaurant marketing is important to the success of our concepts. For example, each restaurant's general manager cultivates relationships with local businesses and luxury hotels that drive the restaurant's business, in particular its private dining business. We also work with a national public relations firm that coordinates local firms in connection with new restaurant openings. The Double Eagle, Barcelona, bartaco and Grille each use specific marketing and advertising initiatives to position the concepts in the applicable segment of our industry, including advertisement placement in magazines, digital advertising and social media targeting the affluent segment of the population.

Competition

The full-service steak industry and general upscale restaurant businesses are highly competitive and fragmented, and the number, size and strength of competitors vary widely by region, especially within the general upscale restaurant segment. We believe restaurant competition is based on quality of food products, customer service, reputation, restaurant décor, location, name recognition and price. Depending on the specific concept, our restaurants compete with a number of restaurants within their markets, both locally-owned restaurants and restaurants that are part of regional or national chains. The principal competitors for our Double Eagle concept are other upscale steakhouses including local independents and chains such as Mastro's Steakhouse, Fleming's Prime Steakhouse and Wine Bar, The Capital Grille, Smith & Wollensky, The Palm, Ruth's Chris Steak House and Morton's The Steakhouse. The principal competitors for our Barcelona concept are Toro, Jaleo, North Italia, Eureka! and Tupelo Honey Café. The principal competitors for our bartaco concept are Velvet Taco, Tortas Frontera, Superica, Xoco, True Food Kitchen and Sweetgreen. The principal competitors for our Grille concept include other upscale chains such as Hillstone, Seasons 52, Houston's, Paul Martin's American Grill and Earl's Kitchen + Bar. Our concepts also compete with additional restaurants in the broader upscale dining segment.

Seasonality

Our business is subject to seasonal fluctuations comparable to most restaurants. Historically, like other restaurants in our segment, the percentage of our annual revenues earned during the first and fourth fiscal quarters has been typically higher due to holiday traffic, increased gift card purchases and redemptions and increased private dining during the year-end holiday season. In addition, we operate on a 52- or 53-week fiscal year ending the last Tuesday of each December. In fiscal 2018, we changed to a fiscal quarter calendar where each quarter contains 13 weeks, other than in a 53-week year where the last quarter of the year will contain 14 weeks. Prior to fiscal 2018, the first three quarters of our fiscal year consisted of 12 weeks and the fourth quarter consisted of 16 weeks or 17 weeks in a 53-week year. The fiscal years ended December 25, 2018, December 26, 2017 and December 27, 2016, which we refer to as fiscal 2018, fiscal 2017 and fiscal 2016, respectively, had 52 weeks. The following fiscal year that will end on December 31, 2019, which we refer to as fiscal 2019, will also have 53 weeks.

Intellectual Property

We have registered the names Del Frisco’s, Double Eagle Steakhouse, Barcelona Wine Bar, bartaco and Del Frisco’s Grille and have applications pending to register certain other names and logos as trade names, trademarks or service marks with the United States Patent and Trademark Office and in certain foreign countries. We have the exclusive right for use of these trademarks throughout the United States, other than with respect to the following. A third party that operates a single restaurant in Louisville, Kentucky has an exclusive license to use Del Frisco’s name within a 50-mile radius of Louisville, Kentucky. We do not have any right to any future or recurring payments from or have any affirmative payment obligations to the third party and they are responsible for all costs associated with running their respective location, including all commodity and labor costs and any risks related thereto. In fiscal 2016, we entered into an agreement to obtain and clarify the naming rights in certain counties in Kentucky, Indiana and Ohio related to this unrelated third party for aggregate consideration of $0.6 million. We are also aware of names similar to those of our restaurants used by various third parties in certain limited geographical areas. We believe that our trade names, trademarks and service marks are valuable to the operation of our restaurants and are important to our marketing strategy.

Government Regulation

Our restaurants are subject to licensing and regulation by state and local health, safety, fire and other authorities, including licensing and regulation requirements for the sale of alcoholic beverages and food. We maintain the necessary restaurant, alcoholic beverage and retail licenses, permits and approvals. The development and construction of additional restaurants will also be subject to compliance with applicable zoning, land use and environmental regulations. Federal and state labor laws govern our relationship with our employees and affect operating costs. These laws regulate, among other things, minimum wage, overtime, tips, tip credits, unemployment tax rates, workers' compensation rates, health insurance, citizenship requirements and other working conditions. Our restaurants are subject in each state in which we operate to "dram shop" laws, which allow, in general, a person to sue us if that person was injured by an intoxicated person who was wrongfully served alcoholic beverages at one of our restaurants. A judgment against us under a dram shop law could exceed our liability insurance coverage policy limits and could result in substantial liability for us and have a material adverse effect on our results of operations and financial condition. Our inability to continue to obtain such insurance coverage at reasonable costs also could have a material adverse effect on us. We are also subject to the federal Americans with Disabilities Act, which prohibits discrimination on the basis of disability in public accommodations and employment.

Celebrating Life in The Community

A significant part of "Celebrating Life in Restaurants", from extraordinary events to those everyday moments with friends and family, to supporting our team members' journeys in their celebration of life, comes from our investment to the communities where we are located, to those in need, and to our team members and guests. We believe quality service extends beyond our restaurants and into the larger community. Our love for what we do fuels our passion for providing support to causes close to our heart.

St. Jude Children's Research Hospital®

We are thrilled to partner with St. Jude Children's Research Hospital®. We believe our national partnership with St. Jude will benefit both organizations and those in the communities in which we have a presence. "Celebrating Life in Restaurants" starts with celebrating life and is intended to ensure children live to see the other side of childhood cancer.

Veteran Roasters

Del Frisco's Restaurant Group is paying back our veterans in need one cup at a time. We have partnered with Veteran Roasters Cup O' Joe, a company that serves the bigger cause of ending homelessness and unemployment for veterans, while roasting incredible coffee. Veterans have defended our freedom, and we are thrilled to be able to support those who put their lives on the line for our safety.

CitySquare

CitySquare's partnership with Del Frisco's Restaurant Group manifests itself in many ways. CitySquare has been the beneficiary of the DFRG 5K Walk & Run for the past three years. It is a way for DFRG employees to give back and raise community awareness of the issues of poverty in Dallas. Beyond the financial support, leftover collateral including t-shirts, swag bags, and food items go to CitySquare programs to meet ongoing needs. The food is distributed through the Food Pantry and the reusable bags and t-shirts are available for any of the neighbors who are in need. For the last two years, Del Frisco's Restaurant Group has also sponsored CitySquare's annual "A Night to Remember" event with proceeds raised to support its mission of feeding the hungry, healing the sick, housing the homeless and renewing hope in the heart of Dallas. DFRG employees have also supported CiySquare by hosting coat drives to prepare for the winter, hiring hospitality graduates at DFRG restaurants, and providing the meal for the

annual AmeriCorps Brunch, a celebration of the CitySquare AmeriCorps members who donate their time and skills to fight poverty.
DFRG Employee Support Fund
The DFRG employee support fund was created in 2016 to help our Team Members in times of need when suffering from a catastrophic event in their life resulting in financial hardship. Financial assistance granted from the DFRG FEED fund is a gift, not a loan and is not required to be paid back.

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Employees

As of December 25, 2018, we had approximately 6,595 employees. Many of our hourly employees are employed on a part-time basis to provide services necessary during peak periods of restaurant operations. None of our employees are covered by a collective bargaining agreement. We believe that we have good relations with our employees.

Executive Officers and Key Employees

The following table sets forth certain information regarding our executive officers and certain of our key employees.

Name	Age	Position
Norman J. Abdallah	56	Chief Executive Officer; Director
Neil Thomson	48	Chief Financial Officer
Brandon C. Coleman	36	President, Del Frisco's Grille
Thomas G. Dritsas	48	Senior Vice President of Culinary & Corporate Executive Chef
Adam Halberg	43	President, Barcelona
William S. Martens	45	Executive Vice President, Chief Development Officer
Mia Meachem	52	Chief Marketing Officer
Sabato Sagaria	43	President, bartaco
Juan Salas	45	Chief Technology Officer
April L. Scopa	51	Executive Vice President, Chief People Officer
Scott C. Smith	63	President, Del Frisco’s Double Eagle

Norman J. Abdallah has served as Chief Executive Officer since November 2016. Mr. Abdallah has also served as a member of the Board since July 2012. Mr. Abdallah also served as a member of the Company’s Advisory Board from March 2011 to July 2012. Previously, Mr. Abdallah served as an Operating Partner for CIC Partners, a private equity firm, in the role of Chief Executive Officer of TM Restaurant Holdings LLC from September 2014 to September 2016 and Executive Chairman of Willies Grill & Icehouse Holdings LLC, a restaurant company, from September 2014 to October 2016. From December 2013 through September 2014, Mr. Abdallah served as Chief Executive Officer of Counter Concepts, LLC, a private equity firm. From May 2013 through December 2013, Mr. Abdallah served as interim Chief Executive Officer of Dinosaur Bar-B-Que, a restaurant operating company. Mr. Abdallah formerly served as the Chief Executive Officer of Romano’s Macaroni Grill, a restaurant operating company, from 2010 through April 2013. Prior to joining Romano’s Macaroni Grill, Mr. Abdallah served as Chief Executive Officer of Restaurants Unlimited Inc., a privately-held multi-concept restaurant company, from 2009 to 2010. Prior to joining Restaurants Unlimited, Mr. Abdallah served as the Chief Executive Officer and Co-Founder of Fired Up, Inc., the parent company of U.S.-based casual dining concept Carino’s Italian, from 1997 to 2008. Mr. Abdallah has also served as a member of the Board of Directors of California Pizza Kitchen, Inc., a restaurant operating company, from 2011 to April 2013.

Neil Thomson has served as Chief Financial Officer since May 2017. Prior to Del Frisco’s, he served as Chief Growth Officer of the Pizza Hut Asia Pacific region, a position he held from January 2017 to May 2017. Before that, Mr. Thomson served as the Chief Development Officer for Pizza Hut International from January 2014 to December 2016. Prior to that, he served for two years as the Vice President of Finance for Yum! Restaurants International, an international owner, operator and franchisor of restaurants, from January 2012 to December 2013. He also served as the CFO of Yum! Restaurants International India subcontinent business from 2007 to 2011 and at KFC UK from 2002 to 2007 he served initially as Controller and subsequently as Commercial Director. Prior to joining Yum!, Mr. Thomson held the role of Finance Director at an internet start-up company. Mr. Thomson also served in a number of finance and supply chain roles for five years at McDonald’s UK after starting his career at KPMG in London.

Brandon C. Coleman has served as President of Del Frisco’s Grille since September 2017. Before this role, he served as Chief Marketing Officer from December 2016 until September 2017. Prior to joining our company, from 2013 to 2016, Mr. Coleman served as the Chief Executive Officer and lead management consultant for Brava Partners, a brand consulting firm, where he led engagements for over nineteen brands. Prior to Brava Partners, in 2013, Mr. Coleman served as the Chief Marketing Officer for Snapfinger, Inc., an online restaurant ordering and technology company, where he led sales, marketing and product development initiatives. Prior to Snapfinger, Inc., from 2010 to 2013, Mr.

Coleman served as the Chief Marketing Officer for Romano's Macaroni Grill, a restaurant operating company. Prior to Macaroni Grill, from 2009 to 2010, Mr. Coleman served as the Vice President of Marketing for Restaurants Unlimited, Inc. Mr. Coleman's career began with global advertising leader McCann Erickson NY.

Thomas G. Dritsas was promoted to Senior Vice President of Culinary & Corporate Executive Chef in June of 2018. Mr. Dritsas has served as Vice President of Culinary & Corporate Executive Chef since December 2006 and oversees the day to day culinary operations of Del Frisco's, Barcelona, bartaco and the Grille. From 2003 to 2006, Mr. Dritsas served as Corporate Executive Chef

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for Lone Star Steakhouse & Saloon, Inc., during which time he oversaw the daily culinary operations for each of its concepts. Mr. Dritsas joined Lone Star Steakhouse & Saloon, Inc. in 1999 and served in various culinary capacities, including as part of new opening teams. Prior to joining Lone Star Steakhouse & Saloon, Mr. Dritsas assisted in the opening of numerous independent restaurants and operated his own restaurant.

Adam Halberg has served as President of Barcelona Wine Bar since June 2018. Prior to joining our company, from June 2016 to June 2018, Mr. Halberg led the Barcelona Wine Bar brand as President and as Senior Vice President of Operations at Barteca Holdings, LLC. Prior to this role Mr. Halberg served as the Senior Vice President of Culinary for the Barteca Restaurant Group, overseeing all kitchens and Purchasing for both Barcelona Wine Bar and bartaco from April 2014 to June 2016. Prior to this Mr. Halberg held a position of Culinary Director for Barcelona Wine Bar from 2008 to 2014 and for bartaco from 2010 to 2014. Prior to joining Barcelona Wine Bar, Mr. Halberg held Chef positions at award-winning restaurants in Boston and Atlanta. He trained in kitchens in Italy and Spain under multiple James Beard Award winning chefs.

William S. Martens was promoted to Executive Vice President and Chief Development Officer in October of 2017. Mr. Martens served as Chief Development Officer since November 2016, and previously as Vice President of Development & Construction since 2011, and is responsible for market planning, site selection, site acquisition and construction for our four concepts. Mr. Martens also oversees concept design, portfolio management and facilities operations. Mr. Martens has been with us since 2008, previously serving as our Director of Development where he managed all facets of new unit development and established the infrastructure to support our growth in new and existing markets. Before joining our company, Mr. Martens served as Vice President of Portfolio Management with Hudson Americas, LLC, from 2007 to 2008. Prior to Hudson Americas, Mr. Martens spent nine years with Yum! Brands, where he held multiple leadership roles in Finance and Development, including the position of Senior Manager of Development. In this role, he worked with senior brand leadership teams to develop market plans, define asset strategies and make capital appropriations decisions for approximately 350 new restaurants annually.

Mia Meachem has served as Chief Marketing Officer since July 2018. Ms. Meachem has nearly 20 years of experience in marketing, with a track record of success in a variety of luxury environments, including restaurants, retail and fashion. Prior to joining our company, from 2015 to July 2018, Ms. Meachem served as Chief Marketing Officer for Highland Park Village, a luxury shopping center, where she developed strategies for customer growth for 65+ luxury retailers. Prior to Highland Park Village, from 2011-2015, Ms. Meachem worked for the Neiman Marcus Group, a luxury department store, as the Vice President Marketing and Vice President, Brand Marketing and Partnership where she created impactful campaigns to drive customer engagement and growth. Prior to the Neiman Marcus Group, from 2008-2010, Ms. Meachem served as Director of Global Brand Management for Burt’s Bees, a personal care company, where she was responsible for the global brand development. Prior to Burt’s Bees, Ms. Meachem worked at the Estee Lauder Companies from 2008 in various roles of increasing responsibility where she oversaw and guided the global brand development for multiple brands including the Origins brand. Ms. Meachem began her career with the luxury automotive manufacturer Land Rover where she worked from 1989 to 1998. Ms. Meachem was instrumental in helping the brand establish a presence in the US and experience significant growth.

Sabato Sagaria has served as President of bartaco since June 2018. Prior to joining our company, from October 2017 to June 2018, Mr. Sagaria led the bartaco brand as President, at Barteca Holdings, LLC, where he has led the team overseeing operations, culinary, learning and development. Prior to this role Mr. Sagaria served as Chief Restaurant Officer for Union Square Hospitality Group from November 2013 to October 2017 growing their collection of restaurants from eight to 18 throughout New York City. Prior to Union Square Hospitality Group, from 2007 to 2013, Mr. Sagaria presided over the food and beverage operations at The Little Nell Hotel in Aspen Colorado as Food and Beverage director. Prior to this role Mr. Sagaria was Wine Director at The Inn at Little Washington from 2006 to October 2007. Mr. Sagaria's wine career began in 1997 at The Greenbrier Hotel in West Virginia as Beverage Director. In 2012 Mr. Sagaria passed the Master Sommelier exam becoming the 120th Master Sommelier in the United States and is one of 250 Master Sommeliers worldwide.

Juan Salas has served as Chief Technology Officer since June 2017. In his role, Mr. Salas partners with the senior brand leadership team developing technology strategies to implement best-in-class enterprise systems. He is responsible for our company's technology, information, and data security platforms. Prior to joining our company, from January 2014 to June 2017, Mr. Salas served as Chief Information Officer for Dallas based Good Smoke Restaurant Group, owner and operator of Dinosaur Restaurants, LLC and Jim ‘n Nicks BBQ. Prior to Good Smoke Restaurant Group, in 2013 Mr. Salas served as a Senior IT Consultant to various companies. Prior to being a consultant, Mr. Salas served as Senior Vice President of IT at Romano’s Macaroni Grill. Mr. Salas brings more than twenty-five years of restaurant and technology experience to our company, previously serving in Technology Leadership roles for brands such as: Raising Cane’s Chicken Fingers, AFC Enterprises and Fired Up, Inc. During Mr. Salas’ tenure with these brands, he has successfully led large scale systems integrations, developed growth platforms, and implemented startup businesses.

April L. Scopa was promoted to Executive Vice President and Chief People Officer in October 2017. Previously Ms. Scopa served as Chief People Officer, a position she held from November 2016 to October 2017, and as Vice President of People and Education

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from June 2011 to November 2016, and is responsible for recruiting, human resources, talent development and training strategy. Prior to joining our company, Ms. Scopa worked with Landmark Leisure Group, a national leader in entertainment development since June 2010 and served as VP of People & Development, beginning in January 2011, where she led the human resources, recruiting, new store opening development, employee relations, talent management and personnel development strategy. Prior to Landmark, Ms. Scopa spent eight years with The Capital Grille, an upscale steakhouse division of Darden Restaurants, as Director of Operations and Senior Director of Training, where her responsibilities most recently included quality of operations, people and P&L results for six locations. Prior to The Capital Grille, Ms. Scopa also worked for C.A. Muer Corporation and LongHorn Steakhouse, both in a training and operations capacity.

Scott C. Smith has served as President, Del Frisco’s Double Eagle since September 2018, prior to this he served as President, Sullivan’s from January 2017 to September 2018. Prior to joining our company, from 2013 to 2016, Mr. Smith most recently served as the Chairman and CEO of Day Star Restaurant Group, which owns and operates Texas Land & Cattle and Lone Star Steak House restaurants. Prior to Day Star, from 2011 to 2013, Mr. Smith was Senior Vice President of Operations at Romano’s Macaroni Grill, a restaurant operating company. Prior to Romano’s Macaroni Grill, from 2009 to 2011, Mr. Smith served as Chief Operating Officer of Restaurants Unlimited and later as the President and CEO. Prior to Restaurants Unlimited, from 2008 to 2009, Mr. Smith served as the President and CEO of AMER Restaurant Group, which operated a portfolio of restaurants in Cairo, Egypt. Prior to AMER Restaurant Group, Mr. Smith served in various leadership positions in various companies throughout the restaurant industry, including Brinker International, in addition to founding, owning and operating different restaurant concepts.

Available Information

Our website address is www.dfrg.com, and we also host www.delfriscos.com, www.barcelonawinebar.com, www.bartaco.com and www.delfriscosgrille.com. Information contained on our websites or connected thereto does not constitute a part of this Annual Report on Form 10-K or any other filing we make with the Securities and Exchange Commission, or the SEC. We make available free of charge on our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, as soon as reasonably practical after we file such material with, or furnish it to, the SEC. Certain of these documents may also be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an Internet website that contains reports, and other information regarding issuers that file electronically with the SEC at www.sec.gov. We also make available free of charge on our website our Corporate Governance Guidelines, our Code of Business Conduct and Ethics, and the Charters of our Audit Committee, Nominating and Corporate Governance Committee, and Compensation Committee of our Board of Directors.

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Item 1A. Risk Factors

Changes in general economic conditions, including economic uncertainty, have adversely impacted our business and results of operations in the past, may continue to do so and may do so in the future.

Purchases at our restaurants are discretionary for consumers, and we are therefore susceptible to economic slowdowns. We believe that consumers generally are more willing to make discretionary purchases, including high-end restaurant meals, during favorable economic conditions. Economic uncertainty, including high unemployment and financial market volatility and unpredictability, including as a result of events similar to the 2008-2009 economic recession, and the related reduction in consumer confidence, can negatively affect customer traffic and sales throughout our industry, including our segment. If the economy experiences a new downturn or there are continued uncertainties regarding U.S. budgetary and fiscal policies, including recent tax legislation, our customers, including our business clientele, may reduce their level of discretionary spending, impacting the frequency with which they choose to dine out or the amount they spend on meals while dining out. We believe the majority of our weekday revenues in our Del Frisco’s Double Eagle concept is derived from business customers using expense accounts, and our business therefore may be affected by reduced expense account or other business-related dining by our business clientele. If business clientele were to dine less frequently at our restaurants, our business and results of operations would be adversely affected as a result of a reduction in customer traffic or average revenues per customer. There is also a risk that if uncertain or depressed economic conditions persist for an extended period of time, consumers might make long-lasting changes to their discretionary spending behavior, including dining out less frequently. Difficult economic conditions and recessionary periods may have an adverse impact on our business and our financial condition. Negative economic conditions, coupled with high volatility and uncertainty as to the future global economic landscape, have at times had a negative effect on consumers' discretionary income and consumer confidence and similar impacts can be expected should such conditions recur. A decrease in discretionary spending due to decreases in consumer confidence in the economy, or a continued economic slowdown or deterioration in the economy, could adversely affect our business and cause us to, among other things, reduce the number and frequency of new restaurant openings, close restaurants and delay our re-modeling of existing locations.

If our restaurants are not able to compete successfully with other restaurants, our business and results of operations may be adversely affected.

Our industry is intensely competitive with respect to price, quality of service, restaurant location, ambiance of facilities and type and quality of food. A substantial number of national and regional restaurant chains and independently owned restaurants compete with us for customers, restaurant locations and qualified management and other restaurant staff. Our concepts also compete with additional restaurants in the broader upscale and experiential dining segment. Some of our competitors have greater financial and other resources, have been in business longer, have greater name recognition and are better established in the markets where our restaurants are located or where we may expand. Our inability to compete successfully with other restaurants may harm our ability to maintain acceptable levels of revenue growth, limit or otherwise inhibit our ability to grow one or more of our concepts, or force us to close one or more of our restaurants. We may also need to evolve our concepts in order to compete with popular new restaurant formats or concepts that emerge from time to time, and we cannot provide any assurance that we will be successful in doing so or that any changes we make to any of our concepts in response will be successful or not adversely affect our profitability. In addition, with improving product offerings at fast casual restaurants and casual dining restaurants combined with the effects of uncertain economic conditions and other factors, consumers may choose less expensive alternatives, which could also negatively affect customer traffic at our restaurants. Any unanticipated slowdown in demand at any of our restaurants due to industry competition may adversely affect our business and results of operations.

Our future growth depends in part on our ability to open new restaurants and operate them profitably, and if we are unable to successfully execute this strategy, our results of operations could be adversely affected.

Our financial success depends in part on management’s ability to execute our growth strategy. One key element of our growth strategy is opening new restaurants. In fiscal 2018, we opened three Double Eagle restaurants at Back Bay in

Boston, Massachusetts, Atlanta, Georgia and San Diego, California, three bartaco restaurants, post Barteca Acquisition, in North Hills, North Carolina, Fort Point, Massachusetts and Dallas, Texas, and three Grille restaurants in Westwood, Massachusetts, Philadelphia, Pennsylvania and Fort Lauderdale, Florida. In fiscal 2019, we expect to open one Double Eagle restaurant, two to three Barcelona restaurants and three to four bartaco restaurants. We typically target an average cash investment of approximately $8.0 million to $9.0 million for a new Double Eagle, $3.1 million to $3.5 million for a new Barcelona, $2.5 million to $3.0 million for a new bartaco, and $5.0 million to $6.0 million for a new Grille restaurant, in each case net of landlord contributions and equipment financing and excluding pre-opening costs.

Our ability to open new restaurants and operate them profitably is dependent upon a number of factors, many of which are beyond our control, including:

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- finding quality site locations, competing effectively to obtain quality site locations and reaching acceptable agreements to lease or purchase sites;
- complying with applicable zoning, land use and environmental regulations and obtaining, for an acceptable cost, required permits and approvals;
- having adequate capital for construction and opening costs and efficiently managing the time and resources committed to building and opening each new restaurant;
- timely hiring, training and retaining the skilled management and other employees necessary to meet staffing needs;
- successfully promoting our new locations and competing in their markets;
- acquiring food and other supplies for new restaurants from local suppliers; and
- addressing unanticipated problems or risks that may arise during the development or opening of a new restaurant or entering a new market.

A new restaurant typically experiences a "ramp-up" period of approximately 18 to 36 months before it achieves our targeted level of performance. This is due to the costs associated with opening a new restaurant, as well as higher operating costs caused by start-up and other temporary inefficiencies associated with opening new restaurants. For example, there are a number of factors which may impact the amount of time and money we commit to the construction and development of new restaurants, including landlord delays, shortages of skilled labor, labor disputes, shortages of materials, delays in obtaining necessary permits, local government regulations and weather interference. Once the restaurant is open, how quickly it achieves a desired level of profitability is impacted by many factors, including the level of market familiarity and acceptance when we enter new markets, as well as the availability of experienced staff and the time required to negotiate reasonable prices for services and other supplies from local suppliers. Our business and profitability may be adversely affected if the "ramp-up" period for a new restaurant lasts longer than we expect.

We have incurred substantial expenses related to the completion of the Barteca Acquisition, and we expect to incur additional expenses in connection with the integration of Barteca's business with our existing business.

We have incurred, and expect to continue to incur, a number of non-recurring costs associated with the Barteca Acquisition and combining the operations of the two companies. The substantial majority of non-recurring expenses will be comprised of transaction costs related to the Barteca Acquisition.

We will also incur costs related to formulating and implementing integration plans, including facilities and systems consolidation costs and employment-related costs. We continue to assess the magnitude of these costs, and additional unanticipated costs may be incurred as the integration progresses. We expect to implement the integration process gradually over time, and although we expect that the realization of other efficiencies related to the integration of the businesses should allow us to offset integration-related costs over time, this net benefit may not be achieved in the near term, or at all, or we may incur other costs in our operations that offset all or a portion of such cost synergies.

Combining Barteca's business with ours may be more difficult, costly or time consuming than expected and the anticipated synergies and other benefits of the Barteca Acquisition may not be realized.

Barteca operates two highly differentiated brands, Barcelona Wine Bar and bartaco. The success of the Barteca Acquisition, including anticipated synergies and other benefits, will depend, in part, on our ability to successfully combine and integrate our business with the business of Barteca. The Barteca Acquisition will involve the integration of Barteca's business with our existing business, which is a complex, costly and time-consuming process. The integration could result in material challenges, including, without limitation:

- the diversion of management's attention from ongoing business concerns and performance shortfalls at one or both of the companies as a result of the devotion of management's attention to the Barteca Acquisition;
- managing a larger combined company;
- maintaining employee morale and retaining key management and other employees;
- the possibility of faulty assumptions underlying expectations regarding the integration process;
- retaining existing business and operational relationships and attracting new business and operational relationships;
- potential unknown liabilities and unforeseen increased expenses;

- consolidating corporate and administrative infrastructures and eliminating duplicative operations and inconsistencies in standards, controls, procedures and policies;
- coordinating geographically separate organizations and addressing possible differences in corporate culture and philosophies;
- unanticipated issues in integrating information technology, accounting, communications and other systems; and
- unforeseen expenses or delays associated with the integration of Barteca.

Many of these factors will be outside of the combined company's control and any one of them could result in delays, increased costs, decreases in revenues and diversion of management's time and energy, which could materially affect the combined company's financial position, results of operations and cash flows.

If we are unable to achieve these objectives within the anticipated time frame, or at all, the anticipated benefits of the Barteca Acquisition may not be realized fully or at all, or may take longer to realize than expected. In addition, the actual cost savings of the Barteca Acquisition could be less than anticipated.

We obtained financing to complete the Barteca Acquisition, which could adversely affect us, including by decreasing our business flexibility, and may increase our interest expense.

In order to finance the Barteca Acquisition we entered into the 2018 Credit Facility, which provides for senior secured term loans in an aggregate principal amount of $390.0 million and senior secured revolving credit commitments in an aggregate principal amount of $50.0 million. The amount and terms of the 2018 Credit Facility could affect our credit rating and our ability to obtain other financing, including through public or institutional markets. While there is no financial maintenance covenant in the term loans under the 2018 Credit Facility, the 2018 Credit Facility includes other customary affirmative and negative covenants. The failure to meet such restrictive covenants could result in an event of default, which, if not cured or waived, could accelerate our repayment obligations and adversely and materially affect our consolidated results of operations and financial condition, as well as adversely affect our liquidity and the value of our shares of common stock. The ability of us and our subsidiaries to comply with such provisions may be affected by events beyond our control. Any material increase in interest expense could possibly have a material impact on our ability to execute our strategies.

To manage interest rate increase risk we have entered into an interest rate cap to mitigate the impact of LIBOR variability on interest expense for a portion of our variable rate debt. The interest rate cap has been designated as a cash flow hedge. At December 25, 2018, we had an interest rate cap with a notional value of $200.0 million and 3% per annum strike rate to hedge the variability in the monthly 1-month LIBOR interest payments on a portion of our Term Loan Facility beginning July 31, 2018, through the expiration of the interest rate cap on June 30, 2022.

On August 6, 2018, we received $97.8 million of proceeds from a public offering of common stock that were used to repay a portion of the $390.0 million of the Term Loan B pursuant to an existing prepayment option.

On August 27, 2018 we amended the Term Loan B. The First Amendment amends the 2018 Credit Facility, to, among other things, completely re-syndicate the Amended Term Loan B, and provide the Company with additional term loans in an aggregate principal amount of $18.0 million. The First Amendment also amended the 2018 Credit Facility to increase the interest rate applicable to the Additional Term Loans and the existing term loans outstanding under the 2018 Credit Facility to, at our option, a rate per annum equal to either a LIBOR or ABR rate, plus an applicable margin, which is equal to 6.00% for LIBOR loans and 5.00% for ABR loans.

The amount of cash required to pay interest on our increased indebtedness levels following completion of the Barteca Acquisition, and thus the demands on our cash resources, will be much greater than the amount of cash flows required to service our indebtedness prior to the Barteca Acquisition. The increased levels of indebtedness following completion of the Barteca Acquisition will also reduce funds available for working capital, capital expenditures, acquisitions, the repayment or refinancing of our indebtedness as it becomes due and other general corporate purposes and may create competitive disadvantages for us relative to other companies with lower debt levels.

Moreover, in the future we may be required to raise substantial additional financing to fund working capital, capital expenditures, the repayment or refinancing of our indebtedness, acquisitions or other general corporate requirements. Our ability to arrange additional financing or refinancing will depend on, among other factors, our financial position and performance, as well as prevailing market conditions and other factors beyond our control. We cannot assure you that it will be able to obtain additional financing or refinancing on terms acceptable to us or at all.

The future results of the combined company may be adversely impacted if the combined company does not effectively manage its expanded operations following the completion of the Barteca Acquisition.

Following the completion of the Barteca Acquisition, the size of the combined company's business became significantly larger than the current size of either our or Barteca's respective businesses. The combined company's ability to successfully manage this expanded business will depend, in part, upon management's ability to design and implement strategic initiatives that address not only the integration of two discrete companies in different geographic locations, but also the increased scale and scope of the combined business with its associated increased costs and complexity. There can be no assurances that the combined company will be successful or that it will realize the expected operating efficiencies, cost savings and other benefits currently anticipated from the Barteca Acquisition.

Uncertainties associated with the Barteca Acquisition may cause the departure of management personnel and other key employees, which could adversely affect the future business and operations of the combined company.

We are dependent upon the experience and industry knowledge of our respective officers and other key employees to execute our respective business plans. The combined company’s success after the Barteca Acquisition will depend in part upon the ability of Del Frisco’s to retain key management personnel and other key employees. Current and prospective employees of Del Frisco’s may experience uncertainty about their future roles with the combined company, which may materially adversely affect the ability of Del Frisco’s to attract and retain key personnel after the acquisition which could adversely impact operations of the combined company.

If we are unable to increase our sales or maintain our margins at existing restaurants, our profitability and overall results of operations may be adversely affected.

Another key aspect of our growth strategy is increasing comparable restaurant sales and maintaining restaurant-level margins. Improving comparable restaurant sales and maintaining restaurant-level margins depends in part on whether we achieve revenue growth through increases in the average check and further expand our private dining business at each restaurant. We believe there are opportunities to increase the average check at our restaurants through, for example, selective introduction of higher priced items and increases in menu pricing. We also believe that expanding and enhancing our private dining capacity will also increase our restaurant sales, as our private dining business typically has a higher average check and higher overall margins than regular dining room business. However, these strategies may prove unsuccessful, especially in times of economic hardship, as customers may not order or enjoy higher priced items and discretionary spending on private dining events may decrease. Select price increases have not historically adversely impacted customer traffic; however, we expect that there is a price level at which point customer traffic would be adversely affected. It is also possible that these changes could cause our sales volume to decrease. If we are not able to increase our sales at existing restaurants for any reason, our profitability and results of operations could be adversely affected.

The failure to successfully accelerate development of our Del Frisco's Double Eagle Steakhouse concept could have a material adverse effect on our financial condition and results of operations.

We operated 16 Del Frisco's Double Eagle Steakhouse locations as of the end of fiscal 2018. During fiscal 2017, we began accelerating development of the Del Frisco's Double Eagle concept, and plan to annually open two to three restaurants. Our ability to execute this initiative will require significant capital expenditures and management attention. If the “ramp-up” period for one or more of the new Del Frisco's Double Eagle restaurants does not meet our expectations, our operating results may be adversely affected. In addition, we are targeting restaurant-level EBITDA margins of between 24% to 27% for the Del Frisco's Double Eagle concept. However, because we face new challenges at the Del Frisco's Double Eagle restaurants as we enter new markets, our operating margins may not reach these levels, requiring us to take action, including possible changes to our pricing and menu offering strategies, and we may not be successful in recouping our increased investments in the concept. We may not be able to attract enough customers to meet targeted levels of performance at new restaurants because potential customers may be unfamiliar with our concept or the atmosphere or menu might not appeal to them. In addition, opening a new Del Frisco's Double Eagle restaurant in one of our existing markets could reduce the revenue of our existing restaurants in that market. If we cannot successfully execute our growth strategies for the Del Frisco's Double Eagle concept, or if customer traffic generated by a Del Frisco's Double Eagle restaurant results in a decline in customer traffic at one of our other restaurants in the same market, our business and results of operations may be adversely affected.

Our growth, including the continued development of the Del Frisco's Double Eagle concept, as well as recently acquired Barcelona and bartaco concepts, may strain our infrastructure and resources, which could delay the opening of new restaurants and adversely affect our ability to manage our existing restaurants.

We plan to continue new restaurant growth, including the continued development and promotion of the Del Frisco's Double Eagle, Barcelona and bartaco concepts. We believe there are opportunities to open eight to twelve new restaurants annually, generally composed of two to three Double Eagle restaurants, two to three Barcelona restaurants and four to six for bartaco restaurants, which will serve as the primary driver of new unit growth in the near term. During fiscal 2019, we expect to open one Double Eagle restaurant, two to three Barcelona restaurants and three to four bartaco restaurants. We typically target an average cash investment of approximately $8.0 million to $9.0 million for a new Double Eagle, $3.1 million to $3.5 million for a new Barcelona, $2.5 million to $3.0 million for a new bartaco restaurant, in each case net of landlord contributions and equipment financing and excluding pre-opening costs. This growth and these investments will increase our operating complexity and place increased demands on our management as well as our human resources, purchasing and site management teams. While we have committed significant resources to expanding our current restaurant management systems, financial and management controls and information systems in connection with our recent growth, if this infrastructure is insufficient to support this expansion, our ability to open new restaurants, including the continued development and promotion of the Double Eagle, Barcelona and bartaco, and to manag e our existing restaurants, including the expansion of our private dining business, would be adversely affected. If we fail to continue to improve our infrastructure or if our improved infrastructure fails, we may be unable to implement our growth strategies or maintain current levels of operating performance in our existing restaurants.

Our New York Del Frisco’s Double Eagle location represents a significant portion of our revenues, and any significant downturn in its business or disruption in the operation of this location could harm our business, financial condition and results of operations.

Our New York Del Frisco’s Double Eagle location represented approximately 10%, 11% and 11% of our revenues in fiscal 2018, 2017 and 2016, respectively. Accordingly, we are susceptible to any fluctuations in the business at our New York Double Eagle location, whether as a result of adverse economic conditions, negative publicity, changes in customer preferences or for other reasons. In addition, any natural disaster, prolonged inclement weather, act of terrorism or national emergency, accident, system failure or other unforeseen event in or around New York City could result in a temporary or permanent closing of this location, could influence potential customers to avoid this geographic region or this location in particular or otherwise lead to a decrease in revenues. Any significant interruption in the operation of this location or other reduction in sales could adversely affect our business and results of operations.

Negative customer experiences or negative publicity surrounding our restaurants or other restaurants could adversely affect sales in one or more of our restaurants and make our brands less valuable.

The quality of our food and our restaurant facilities are two of our competitive strengths. Therefore, adverse publicity, whether or not accurate, relating to food quality, public health concerns, illness, safety, injury or government or industry findings concerning our restaurants, restaurants operated by other food service providers or others across the food industry supply chain could affect us more than it would other restaurants that compete primarily on price or other factors. An unrelated restaurant in Louisville, Kentucky has the right to use, and uses, a specific registration of the Del Frisco’s name pursuant to a concurrent use agreement, as described in greater detail in “Item 1. Business”. We do not own or control the Louisville restaurant, but any adverse publicity relating to those operations could negatively affect us. In addition, although we would not be legally liable for any such failure, because the Louisville restaurant operates under one of our brand names, we may be subject to litigation as a result of the restaurant’s failure to comply with food quality, preparation or other applicable rules and regulations. If customers perceive or experience a reduction in our food quality, service or ambiance or in any way believe we have failed to deliver a consistently positive experience, the value and popularity of one or more of our concepts could suffer.

Negative publicity relating to food safety and food-borne illnesses, could result in reduced consumer demand for our menu offerings, which could reduce sales.

Instances of food-borne illness, including Bovine Spongiform Encephalopathy, which is also known as BSE or mad cow disease, aphthous fever, which is also known as hoof and mouth disease, as well as hepatitis A, listeria, salmonella and e-coli, whether or not found in the United States or traced directly to one of our suppliers or our restaurants, could reduce demand for our menu offerings. Any negative publicity relating to these and other health-related matters, such as the confirmation of a case of mad cow disease in a dairy cow in California in April 2012, may affect consumers’ perceptions of our restaurants and the food that we offer, reduce customer visits to our restaurants and negatively impact demand for our menu offerings. Adverse publicity relating to any of these matters, beef in general or other similar concerns could adversely affect our business and results of operations.

Increases in the prices of, and/or reductions in the availability of commodities, primarily beef, could adversely affect our business and results of operations.

Our profitability depends in part on our ability to anticipate and react to changes in commodity costs, which have a substantial effect on our total costs. For example, we purchase large quantities of beef, particularly USDA prime beef. Our beef costs represented approximately 23%, 32% and 32% of our food and beverage costs during fiscal 2018, 2017 and 2016, respectively, and we currently do not purchase beef pursuant to any long-term contractual arrangements with fixed pricing or use futures contracts or other financial risk management strategies to reduce our exposure to potential price fluctuations. The market for USDA prime beef is particularly volatile and is subject to price fluctuations due to seasonal shifts, climate conditions, the price of feed, industry demand, energy demand and other factors. Although we currently do not engage in futures contracts or other financial risk management strategies with respect to potential price fluctuations, from time to time, we may opportunistically enter into fixed price beef supply contracts or contracts for other food products or consider other risk management strategies with regard to our meat and other food costs to minimize the impact of potential price fluctuations. This practice could help stabilize our food costs during times of fluctuating prices, although there can be no assurances that this will occur. However, because our restaurants feature USDA prime beef, we generally expect to purchase beef even if we have not entered into any such arrangements and the price increased significantly. The prices of other commodities can affect our costs as well, including corn and other grains, which are ingredients we use regularly and are also used as cattle feed and therefore affect the price of beef. Energy prices can also affect our bottom line, as increased energy prices may cause increased transportation costs for beef and other supplies, as well as increased costs for the utilities required to run each restaurant. Historically we have passed increased commodity and other costs on to our customers by increasing the prices of our menu items. While we believe these price increases did not historically affect our customer traffic, there can be no assurance additional price increases would not affect future customer traffic. If prices increase in the future and we are unable to anticipate or mitigate these increases, or if there are shortages for USDA Prime beef, our business and results of operations would be adversely affected.

We depend upon frequent deliveries of food and other supplies, in most cases from a limited number of suppliers, which subjects us to the possible risks of shortages, interruptions and price fluctuations.

Our ability to maintain consistent quality throughout our restaurants depends in part upon our ability to acquire fresh products, including USDA prime beef, fresh seafood, quality produce and related items from reliable sources in accordance with our specifications. In addition, we rely on one or a limited number of suppliers for certain ingredients. For example, Stock Yards, a division of U.S. Foods, Inc., is the primary supplier of the beef for most of our restaurants and has been since June 2009. This dependence on one or a limited number of suppliers, as well as the limited number of alternative suppliers of USDA prime beef and quality seafood, subjects us to the possible risks of shortages, interruptions and price fluctuations in beef and seafood. If any of our suppliers is unable to obtain financing necessary to operate its business or its business is otherwise adversely affected, does not perform adequately or otherwise fails to distribute products or supplies to our restaurants, or terminates or refuses to renew any contract with us, particularly with respect to one of the suppliers on which we rely heavily for specific ingredients, we may be unable to find an alternative supplier in a short period of time or if we can, it may not be on acceptable terms. Our inability to replace our suppliers in a short period of time on acceptable terms could increase our costs or cause shortages at our restaurants that may cause us to remove certain items from a menu, increase the price of certain offerings or temporarily close a restaurant, which could adversely affect our business and results of operations.

We depend on the services of key executives, and our business and growth strategy could be materially harmed if we were to lose these executives and were unable to replace them with and successfully transition to executives of equal experience and capabilities.

Some of our senior executives, such as Norman J. Abdallah, our Chief Executive Officer, are particularly important to our success. Senior executives are important to our business because they have been instrumental in setting our strategic direction, operating our business, identifying, recruiting and training key personnel, identifying expansion opportunities and arranging necessary financing. We have employment agreements with all members of senior management; however, we cannot prevent our executives from terminating their employment with us. Losing the services of any of these individuals could adversely affect our business until a suitable replacement could be found. We also believe that they could not quickly be replaced with executives of equal experience and capabilities and their successors may not be as effective. We do not maintain key person life insurance policies on any of our executives.

Changes in consumer preferences and discretionary spending patterns could adversely impact our business and results of operations.

The restaurant industry is characterized by the continual introduction of new concepts and is subject to rapidly changing consumer preferences, tastes and eating and purchasing habits. Our success depends in part on our ability to anticipate and respond quickly to changing consumer preferences, as well as other factors affecting the restaurant industry, including new market entrants and demographic changes. Shifts in consumer preferences away from upscale steakhouses or beef, which is a significant component of our Del Frisco’s Double Eagle concepts’ menus and appeal, whether as a result of economic, competitive or other factors, could adversely affect our business and results of operations.

Restaurant companies, including ours, have been the target of class action lawsuits and other proceedings alleging, among other things, violations of federal and state workplace and employment laws. Proceedings of this nature, if successful, could result in our payment of substantial damages.

In recent years, we and other restaurant companies have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state laws regarding workplace and employment matters, discrimination and similar matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. Similar lawsuits have been instituted from time to time alleging violations of various federal and state wage and hour laws regarding, among other things, employee meal deductions, the sharing of tips amongst certain employees, overtime eligibility of assistant managers and failure to pay for all hours worked.

Occasionally, our customers file complaints or lawsuits against us alleging that we are responsible for some illness or injury they suffered at or after a visit to one of our restaurants, including actions seeking damages resulting from food-borne illness and relating to notices with respect to chemicals contained in food products required under state law. We are also subject to a variety of other claims from third parties arising in the ordinary course of our business, including personal injury claims, contract claims and claims alleging violations of federal and state laws. In addition, our restaurants are subject to state “dram shop” or similar laws which generally allow a person to sue us if that person was injured by a legally intoxicated person who was wrongfully served alcoholic beverages at one of our restaurants. The restaurant industry has also been subject to a growing number of claims that the menus and actions of restaurant chains have led to the obesity of certain of their customers.

Regardless of whether any claims against us are valid or whether we are liable, claims may be expensive to defend and may divert time and money away from our operations. In addition, they may generate negative publicity, which could reduce customer traffic and sales. Although we maintain what we believe to be adequate levels of insurance, insurance may not be available at all or in sufficient amounts to cover any liabilities with respect to these or other matters. A judgment or other liability in excess of our insurance coverage for any claims or any adverse publicity resulting from claims could adversely affect our business and results of operations.

Our business is subject to substantial government regulation.

Our business is subject to extensive federal, state and local government regulation, including regulations related to the preparation and sale of food, the sale of alcoholic beverages, the sale and use of tobacco, zoning and building codes, land use and employee, health, sanitation and safety matters. For example, the preparation, storing and serving of food and the use of certain ingredients is subject to heavy regulation. Alcoholic beverage control regulations govern various aspects of our restaurants' daily operations, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing and inventory control, handling and storage. Typically, our restaurants' licenses to sell alcoholic beverages must be renewed annually and may be suspended or revoked at any time for cause. In addition, because we operate in a number of different states, we are also required to comply with a number of different laws covering the same topics. The failure of any of our restaurants to timely obtain and maintain necessary governmental approvals, including liquor or other licenses, permits or approvals required to serve alcoholic beverages or food could delay or prevent the opening of a new restaurant or prevent regular day-to-day operations, including the sale of alcoholic beverages, at a restaurant that is already operating, any of which would adversely affect our business and results of operations.

In addition, the costs of operating our restaurants may increase if there are changes in laws governing minimum hourly wages, working conditions, overtime and tip credits, health care, workers' compensation insurance rates, unemployment tax rates, sales taxes or other laws and regulations such as those governing access for the disabled, including the Americans with Disabilities Act. For example, the Federal Patient Protection and Affordable Care Act, or PPACA, which was enacted on March 23, 2010, among other things, includes guaranteed coverage requirements and imposes new taxes on health insurers and health care benefits that could increase the costs of providing health benefits to employees. In addition, because we have a significant number of restaurants located in certain states, regulatory changes in these states could have a disproportionate impact on our business. If any of the foregoing increased costs and we were unable to offset the change by increasing our menu prices or by other means, our business and results of operations could be adversely affected.

Government regulation can also affect customer traffic at our restaurants. A number of states, counties and cities have enacted menu labeling laws requiring multi-unit restaurant operators to disclose certain nutritional information. For example, the PPACA establishes a uniform, federal requirement for restaurant chains with 20 or more locations operating under the same trade name and offering substantially the same menus to post nutritional information on their menus, including the total number of calories. The law also requires such restaurants to provide to consumers, upon request, a written summary of detailed nutritional information, including total calories and calories from fat, total fat, saturated fat, cholesterol, sodium, total carbohydrates, complex carbohydrates, sugars, dietary fiber, and total protein in each serving size or other unit of measure, for each standard menu item. The FDA is also permitted to require additional nutrient disclosures, such as trans-fat content. In 2015, our Grille concept became subject to the requirements to post nutritional information on our menus and, based on current strategic outlook, our Double Eagle, Barcelona and bartaco concepts may become subject to these requirements in the near future. The FDA compliance deadline was May 7, 2018. We intend to comply with these requirements to the extent required for all concepts. Our compliance with the PPACA or other similar laws to which we may become subject could reduce demand for our menu offerings, reduce customer traffic and/or reduce average revenue per customer, which would have an adverse effect on our revenue. Any reduction in customer traffic related to these or other government regulations could affect revenues and adversely affect our business and results of operations.

To the extent that governmental regulations impose new or additional obligations on our suppliers, including, without limitation, regulations relating to the inspection or preparation of meat, food and other products used in our business, product availability could be limited and the prices that our suppliers charge us could increase. We may not be able to offset these costs through increased menu prices, which could have a material adverse effect on our business. If any of our restaurants were unable to serve particular food products, even for a short period of time, or if we are unable to offset increased costs, our business and results of operations could be adversely affected.

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Labor shortages or changes to wage laws could harm our business.

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including restaurant managers, kitchen staff and servers, necessary to keep pace with our anticipated expansion schedule and meet the needs of our existing restaurants. A sufficient number of qualified individuals of the requisite caliber to fill these positions may be in short supply in some communities. Competition in these communities for qualified staff could require us to pay higher wages and provide greater benefits. Any inability to recruit and retain qualified individuals may also delay the planned openings of new restaurants and could adversely impact our existing restaurants. Any such inability to retain or recruit qualified employees, increased costs of attracting qualified employees or delays in restaurant openings could adversely affect our business and results of operations.

In addition, we have a substantial number of hourly employees who are paid wage rates at or based on the federal or state minimum wage and who rely on tips as a large portion of their income. Any changes in the city, state, or federal laws affecting the wages we pay our employees, including an increase in the minimum wage, such as the 5% increase in the minimum wage on January 1, 2018 in California to $11.00, could increase our costs and have a material adverse impact on our results of operations. Certain other states in which we operate restaurants have adopted or are considering adopting minimum wage statutes that exceed the federal minimum wage as well. We may be unable or unwilling to increase our prices in order to pass these increased labor costs on to our customers, in which case, our business and results of operations could be adversely affected.

We occupy most of our restaurants under long-term non-cancelable leases for which we may remain obligated to perform under even after a restaurant closes, and we may be unable to renew leases at the end of their terms.

All of our restaurants are located in leased premises. Many of our current leases are non-cancelable and typically have initial terms ranging from 5 to 15 years with two to four 5-year extension options. We believe that leases that we enter into in the future will be on substantially similar terms. If we were to close or fail to open a restaurant at a location we lease, we would generally remain committed to perform our obligations under the applicable lease, which could include, among other things, payment of the base rent for the balance of the lease term. For example, in fiscal year 2018, we paid $26.9 million, in fiscal 2017, we paid $20.7 million, and in fiscal 2016, we paid $18.2 million. Our obligation to continue making rental payments and fulfilling other lease obligations in respect of leases for closed or unopened restaurants could have a material adverse effect on our business and results of operations. Alternatively, at the end of the lease term and any renewal period for a restaurant, we may be unable to renew the lease without substantial additional cost, if at all. If we cannot renew such a lease we may be forced to close or relocate a restaurant, which could subject us to construction and other costs and risks. If we are required to make payments or otherwise perform under one of our leases after a restaurant closes or if we are unable to renew our restaurant leases, our business and results of operations could be adversely affected.

Adverse weather conditions and natural disasters could adversely affect our restaurant sales.

Adverse weather conditions can impact guest traffic at our restaurants, cause the temporary underutilization of outdoor patio seating and, in more severe cases such as hurricanes, tornadoes, severe winter storms or other natural disasters, may cause temporary closures, sometimes for prolonged periods, which would negatively impact our restaurant sales. Changes in weather could result in construction delays, interruptions to the availability of utilities, and shortages or interruptions in the supply chain of our restaurants, which could increase our costs. Some climatologists predict that the long-term effects of climate change and global warming may result in more severe, volatile weather or extended droughts, which could increase the frequency and duration of weather impacts on our operations, especially to our restaurants located in coastal cities where flooding occurs more frequently due to severe weather. Further, according to the U.S. Global Change Research Program Climate Science Special Report, heavy rainfall has been increasing in intensity and frequency across the United States and globally and is expected to continue to increase. The largest observed changes in the United States have occurred in the Northeast, where we have a large concentration of restaurant locations.

The impact of negative economic factors, including the availability of credit, on our landlords and other retail center tenants could negatively affect our financial results.

Negative effects on our existing and potential landlords due to any inaccessibility of credit and other unfavorable economic factors may, in turn, adversely affect our business and results of operations. If our landlords are unable to obtain financing or remain in good standing under their existing financing arrangements, they may be unable to provide construction contributions or satisfy other lease covenants to us. If any landlord files for bankruptcy protection, the landlord may be able to reject our lease in the bankruptcy proceedings. While we would have the option to retain our rights under the lease, we could not compel the landlord to perform any of its obligations and would be left with damages as our sole recourse. In addition, if our landlords are unable to obtain sufficient credit to continue to properly manage their retail sites, we may experience a drop in the level of quality of such retail centers. Our development of new restaurants may also be adversely affected by the negative financial situations of developers and potential landlords.

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Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could have a material adverse impact on our business.

Social media continues to grow in importance as a tool for brands to engage with guests, but also opens companies up to risk. As active users continue to increase on these platforms and communication forums broaden the opportunities for guest engagement, there is less control over user generated messaging on social platforms. Social platforms allow subscribers and participants to post frequently, immediately and often without filters or accuracy checks. Even with the best monitoring, brands may not always realize when inaccurate or misleading information has been shared or be able to combat it when discovered. Depending on the information shared, effects can be significant and immediate to our business with field team members, guests, prospects, financial condition and operations. Effects could include increased costs, litigation, negative effects on reputation, exposure of proprietary or personally identifiable information and inaccurate data. To help mitigate risk on social media, our team is constantly innovating how we use and monitor our social platforms to drive awareness, engagement and loyalty to our brands. We have developed social media strategies across all brands that are structured to engage with our customers, tell our brand story and inspire positive and constructive dialogue. Through our marketing efforts, we work on a variety of social media platforms as well as paid digital advertising and search engine marketing to attract and retain guests. The success of these marketing initiatives is never guaranteed as social media is always changing and bringing forth unexpected content. The inappropriate use of social media vehicles by our guests or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation.

Fixed rental payments account for a significant portion of our operating expenses, which increases our vulnerability to general adverse economic and industry conditions and could limit our operating and financing flexibility.

Payments under our operating leases account for a significant portion of our operating expenses, and we expect the new restaurants we open in the future will similarly be leased by us. Specifically, payments under our operating leases accounted for 14.1%, 14.7% and 14.1% of our restaurant operating expenses in fiscal 2018, 2017 and 2016, respectively. Our substantial operating lease obligations could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- limiting our ability to obtain additional financing;
- requiring a substantial portion of our available cash flow to be applied to our rental obligations, thus reducing cash available for other purposes;
- limiting our flexibility in planning for or reacting to changes in our business or the industry in which we compete; and
- placing us at a disadvantage with respect to some of our competitors.

We depend on cash flow from operations to pay our lease obligations and to fulfill our other cash needs. If our business does not generate sufficient cash flow from operating activities and sufficient funds are not otherwise available to us from borrowings under our credit facility or other sources, we may not be able to meet our operating lease obligations, grow our business, respond to competitive challenges or fund our other liquidity and capital needs, which could adversely affect our business and results of operations.

Any future indebtedness we may incur may limit our operational and financing flexibility and negatively impact our business.

On June 27, 2018, in connection with the completion of the Barteca Acquisition, we entered into the 2018 Credit Facility, which provides for senior secured term loans in an aggregate principal amount of $390.0 million and senior secured revolving credit commitments in an aggregate principal amount of $50.0 million. At December 25, 2018, we had $323.8 million of outstanding borrowings on the Company’s long-term debt. We may incur substantial additional indebtedness in the future. Our credit facility, and other debt instruments we may enter into in the future, may have important consequences to us, including the following:

- our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired;
- the requirement that we use a significant portion of our cash flows from operations to pay interest on any outstanding indebtedness, which would reduce the funds available to us for operations and other purposes; and

- our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate may be limited.

We expect that we will depend primarily on cash generated by our operations for funds to pay our expenses and any amounts due under our credit facility and any other indebtedness we may incur. Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flows from operations in the future, and our currently anticipated growth in revenues and cash flows may not be realized, either or both of which could result in our being unable to repay indebtedness or to fund other liquidity needs. If we do not have enough money, we may be required to refinance all or part of our then existing debt, sell assets

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or borrow more money, in each case on terms that are not acceptable to us. In addition, the terms of existing or future debt agreements, including our existing credit facility, may restrict us from adopting any of these alternatives. Our ability to recapitalize and incur additional debt in the future could also delay or prevent a change in control of our company, make some transactions more difficult and impose additional financial or other covenants on us. In addition, any significant levels of indebtedness in the future could place us at a competitive disadvantage compared to our competitors that may have proportionately less debt and could make us more vulnerable to economic downturns and adverse developments in our business. Our indebtedness and any inability to pay our debt obligations as they come due or inability to incur additional debt could adversely affect our business and results of operations.

The terms of our credit facility impose operating and financial restrictions on us.

Our credit facility contains customary representations, warranties, affirmative covenants and negative covenants, that, among other things and subject to certain exceptions, restrict our ability to incur additional indebtedness, grant liens on assets, make investments, sell assets, engage in acquisitions, mergers or consolidations, pay dividends and other restricted payments and prepay junior debt. In addition, the Credit Agreement contains a financial covenant that requires us to maintain a maximum consolidated total leverage ratio as set forth in the Credit Agreement. The Credit Agreement contains customary events of default, including payment defaults, cross-defaults to other material indebtedness, bankruptcy and insolvency, the occurrence of a change of control, inaccuracy of representations and warranties and breaches of covenants under the Credit Agreement, subject to customary grace periods. Upon occurrence of an event of default, the majority lenders (or the majority of revolving lenders in case of the financial covenant) may terminate the commitments under the Credit Agreement, declare any then-outstanding loans due and payable and exercise other customary remedies.

Our credit facility limits our ability to engage in these types of transactions even if we believed that a specific transaction would contribute to our future growth or improve our operating results. As of December 25, 2018, our credit facility also requires us to have a leverage ratio of less than 6.00. As of December 25, 2018, we were in compliance with this test. See Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations. Our ability to comply with these provisions may be affected by events beyond our control. A breach of any of these provisions or our inability to comply with required financial ratios in our credit facility could result in a default under the credit facility in which case the lenders will have the right to declare all borrowings to be immediately due and payable. If we are unable to repay all borrowings when due, whether at maturity or if declared due and payable following a default, the lenders would have the right to proceed against the collateral granted to secure the indebtedness. If we breach these covenants or fail to comply with the terms of the credit facility and the lenders accelerate the amounts outstanding under the credit facility our business and results of operations would be adversely affected.

Our credit facility carries floating interest rates, thereby exposing us to market risk related to changes in interest rates to the extent there are borrowings outstanding thereunder. Accordingly, our business and results of operations may be adversely affected by changes in interest rates. A 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 of outstanding debt under our credit facility, which would have been approximately $3.2 million less the impact of the hedge over the course of a full fiscal year. See Note 8 Derivative Financial Instruments to our consolidated financial statements included elsewhere in this Annual Report for disclosures on our derivative instrument and hedging activities.

It is unclear how increased regulatory oversight and changes in the method for determining LIBOR may affect the value of the financial obligations to be held or issued by us that are linked to LIBOR, or how such changes could affect our results of operations or financial condition.

In the recent past, concerns have been publicized that some of the member banks surveyed by British Bankers' Association, or the BBA, in connection with the calculation of LIBOR across a range of maturities and currencies may have been under-reporting or otherwise manipulating the inter-bank lending rate applicable to them in order to profit on their derivative positions or to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may have resulted from reporting inter-bank lending rates higher than those they actually submitted. A number of BBA member banks entered into settlements with their regulators and law enforcement agencies with respect to alleged manipulation of LIBOR, and investigations by regulators and governmental authorities in various jurisdictions are ongoing.

On July 27, 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced that it intends to phase out LIBOR by the end of 2021. It is unclear if at that time whether LIBOR will cease to exist or if new methods of calculating LIBOR will be established such that it continues to exist after 2021. As such, the potential effect of any such event on our net investment income cannot yet be determined. The U.S. Federal Reserve, in conjunction with the Alternative Reference Rates Committee, a steering committee comprised of large U.S. financial institutions, is considering replacing U.S. dollar LIBOR with a new index calculated by short term repurchase agreements, backed by Treasury securities. If LIBOR ceases to exist, we may need to renegotiate the credit agreements extending beyond 2021 with our portfolio companies that utilize LIBOR as a factor in

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determining the interest rate to replace LIBOR with the new standard that is established. In addition, any further changes or reforms to the determination or supervision of LIBOR may result in a sudden or prolonged increase or decrease in reported LIBOR, which could have an adverse impact on the market value for or value of any LIBOR-linked securities, loans and other financial obligations or extensions of credit held by or due to us and could have a material adverse effect on our business, financial condition and results of operations.

The failure to enforce and maintain our intellectual property rights could enable others to use names confusingly similar to the names and marks used by our restaurants, which could adversely affect the value of our brands.

We have registered the names Del Frisco’s Double Eagle Steakhouse, Barcelona Wine Bar, bartaco and Del Frisco’s Grille and have applications pending to register certain other names and logos used by our restaurants as trade names, trademarks or service marks with the United States Patent and Trademark Office and in certain foreign countries. We have the exclusive right to use these trademarks throughout the United States, other than with respect to one restaurant in Louisville, Kentucky, and the 50 mile surrounding area, where an unrelated third party has the right to use a specific registration of the Del Frisco’s name in Jefferson County in Kentucky. See Item 1, Business. The success of our business depends in part on our continued ability to utilize our existing trade names, trademarks and service marks as currently used in order to increase our brand awareness. In that regard, we believe that our trade names, trademarks and service marks are valuable assets that are critical to our success. The unauthorized use or other misappropriation of our trade names, trademarks or service marks could diminish the value of our brands and restaurant concepts and may cause a decline in our revenues and force us to incur costs related to enforcing our rights. In addition, the use of trade names, trademarks or service marks similar to ours in some markets may keep us from entering those markets. While we may take protective actions with respect to our intellectual property, these actions may not be sufficient to prevent, and we may not be aware of all incidents of, unauthorized usage or imitation by others. Any such unauthorized usage or imitation of our intellectual property, including the costs related to enforcing our rights, could adversely affect our business and results of operations.

Information technology system failures or breaches of our network security, including with respect to confidential information, could interrupt our operations and adversely affect our business.

We and our third party providers rely on our computer systems and network infrastructure across our operations, including point-of-sale processing at our restaurants. Our operations depend upon our ability to protect our computer equipment and systems against damage and disruption from physical theft, fire, power loss, computer and telecommunications failure, workplace wrongdoing, or other natural disasters and catastrophic events, as well as from internal and external security breaches, viruses, worms, malware and other disruptive software and problems. Any damage or failure of our computer systems or network infrastructure or that of our third party providers that causes an interruption in our operations or theirs could have a material adverse effect on our business and results of operations and subject us to damages, loses, litigation or actions by regulatory authorities.

In addition, because the majority of our restaurant sales are by credit or debit cards, our possession of confidential information may also put us at a greater risk of being targeted by hackers. In the normal course of our business, we have been the target of malicious cyber-attack attempts, and other restaurants and retailers have experienced security breaches in which credit and debit card information of their customers has been stolen. We may also be impacted by breaches of our third-party processors. If this or another type of breach occurs at one of our restaurants, we may become subject to negative publicity as well as lawsuits or other proceedings for purportedly fraudulent transactions arising out of the actual or alleged theft of our customers’ credit or debit card information. Although no breaches have had a direct, material impact on us, we are unable to predict the direct or indirect impact of any future attacks to our business or that of our third party providers.

In addition, numerous and evolving cybersecurity threats, including advanced and persistent cyber-attacks, phishing and social engineering schemes, particularly on internet applications, could compromise the confidentiality, availability, and integrity of data in our systems. Although we employ both internal resources and external consultants to conduct auditing and testing for weaknesses in our systems, controls, firewalls and encryption and intend to maintain and upgrade our security technology and operational procedures to prevent such damage, breaches or other

disruptive problems, there can be no assurance that these security measures and procedures will be successful to prevent, counter or otherwise minimize these threats. Any such claim, proceeding or action by a regulatory authority, or any adverse publicity resulting from these allegations, could adversely affect our business and results of operations. Because the techniques used to obtain unauthorized access, or to disable or degrade systems change frequently, have become increasingly more complex and sophisticated, and may be difficult to detect for periods of time, we may not anticipate these acts or respond adequately or timely. As these threats continue to evolve and increase, we may be required to devote significant additional resources in order to modify and enhance our security controls and to identify and remediate any security vulnerabilities.
We expect to offer restricted stock and other forms of stock-based compensation in the future, which have the potential to dilute stockholder value and cause the price of our common stock to decline.

As of December 25, 2018, we had awards of stock options, restricted stock and performance stock units outstanding under our equity compensation plan. In addition, we expect to offer restricted stock and performance stock units and other forms of stock-based compensation to our directors, officers and employees in the future. If the options that we issue are exercised, or any restricted stock or other awards that we may issue vests, and those shares are sold into the public market, the market price of our common stock may decline. In addition, the availability of shares of common stock for award under our equity incentive plan, or the grant of restricted stock or other forms of stock-based compensation, may adversely affect the market price of our common stock.

We are a holding company and depend on the cash flow of our subsidiaries.

We are a holding company with no material assets other than the equity interests of our subsidiaries. Our subsidiaries conduct substantially all of our operations and own substantially all of our assets and intellectual property. Consequently, our cash flow and our ability to meet our obligations and pay any future dividends to our stockholders depends upon the cash flow of our subsidiaries and the payment of funds by our subsidiaries directly or indirectly to us in the form of dividends, distributions and other payments. Any inability on the part of our subsidiaries to make payments to us could have a material adverse effect on our business, financial condition and results of operations.

Provisions of our charter documents, Delaware law and other documents could discourage, delay or prevent a merger or acquisition at a premium price.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. For example, our certificate of incorporation and bylaws include provisions that:

- permit us to issue without stockholder approval preferred stock in one or more series and, with respect to each series, fix the number of shares constituting the series and the designation of the series, the voting powers, if any, of the shares of the series and the preferences and other special rights, if any, and any qualifications, limitations or restrictions, of the shares of the series;
- prevent stockholders from calling special meetings;
- prevent the ability of stockholders to act by written consent;
- limit the ability of stockholders to amend our certificate of incorporation and bylaws;
- require advance notice for nominations for election to the board of directors and for stockholder proposals; and
- establish a classified board of directors with staggered three-year terms.

These provisions may discourage, delay or prevent a merger or acquisition of our company, including a transaction in which the acquiror may offer a premium price for our common stock.

We are also subject to Section 203 of the Delaware General Corporation Law, or the DGCL, which, subject to certain exceptions, prohibits us from engaging in any business combination with any interested stockholder, as defined in that section, for a period of three years following the date on which that stockholder became an interested stockholder. In addition, our equity incentive plan permits vesting of stock options, restricted stock and performance stock units, and payments to be made to the employees thereunder in certain circumstances, in connection with a change of control of our company, which could discourage, delay or prevent a merger or acquisition at a premium price.

We are no longer an “emerging growth company” and, as a result, we are subject to increased disclosure and governance requirements.

We qualified as an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act, through the part of fiscal 2017. We are now an accelerated filer and, as such, we are subject to certain public company requirements that did not previously apply to us. These requirements include:

- compliance with the auditor attestation requirements in the assessment of our internal control over financial reporting;
- full disclosure obligations regarding executive compensation; and
- compliance with the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved.

We expect that the loss of “emerging growth company” status and compliance with these additional requirements may substantially increase our legal and financial compliance costs and make some activities more time consuming and costly. In particular, we expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act. Failure to comply with these requirements could also subject us to enforcement actions by the SEC, further increase costs and divert management’s attention, damage our reputation and adversely affect our business, operating results or financial condition.

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We have had a material weakness in internal control over financial reporting in the past and cannot assure you that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting could result in material misstatements in our financial statements which could require us to restate financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on our stock price.

As reported in our Annual Report on Form 10-K for the year ended December 26, 2017, management identified a material weakness in our internal control over financial reporting. We have remediated this material weakness, by implementing corrective measures as described in Item 9A. Controls and Procedures of our Form 10-K for the year ended December 25, 2018.

We cannot assure you that additional material weaknesses or significant deficiencies in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses or significant deficiencies, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements. Any such failure could also adversely affect the results of periodic management evaluations regarding the effectiveness of our internal control over financial reporting. The existence of a material weakness or significant deficiency could result in errors in our financial statements that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations and cause investors to lose confidence in our reported financial information, leading to a decline in our stock price.

Our reported financial results may be adversely affected by changes in accounting principles applicable to us.

Generally accepted accounting principles in the U.S. are subject to interpretation by the Financial Accounting Standards Board, or FASB, the American Institute of Certified Public Accountants, the SEC and various bodies formed to promulgate and interpret appropriate accounting principles. A change in these principles or interpretations could have a significant effect on our reported financial results and could affect the reporting of transactions completed before the announcement of a change. For example, the FASB, together with the International Accounting Standards Board, has issued a comprehensive set of changes in accounting for leases. The lease accounting model is a “right of use” model that assumes that each lease creates an asset (the lessee’s right to use the leased asset) and a liability (the future rent payment obligations), which should be reflected on a lessee’s balance sheet to fairly represent the lease transaction and the lessee’s related financial obligations. All of our restaurant leases are accounted for as operating leases, with no related assets and liabilities on our balance sheet. However, changes in lease accounting rules or their interpretation, or changes in underlying assumptions, estimates or judgments by us could significantly change our reported or expected financial performance. Any such change could have a significant effect on our reported financial results.

We have recorded significant valuation allowances on our deferred tax assets, and the recording and release of such allowances may have a material impact on our results of operations and cause fluctuations in our stock price.

The need for a valuation allowance requires an assessment of the available positive and negative evidence at each balance sheet date to determine whether sufficient future taxable income will be generated to permit the use of existing deferred tax assets. During the third quarter of fiscal 2018, we entered a three year cumulative loss position and established a valuation allowance against our deferred tax assets. As of December 25, 2018 the valuation allowance was $17.4 million.

In the future, we may release the valuation allowance and recognize deferred tax assets depending on achieving profitability. We continue to monitor the likelihood that we will be able to recover our deferred tax assets. There can be no assurance that we will generate profits in future periods enabling us to fully realize our deferred tax assets. The timing of the reversal of such valuation allowance is subject to objective and subjective factors that cannot be readily predicted in advance. The reversal of a previously recorded valuation allowance may have a material impact on our financial results, which may lead to a fluctuation in the price of our stock.

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Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

We currently operate 73 restaurants across 16 states and the District of Columbia. We currently lease all of our restaurants, of which the majority provide for minimum annual rents with some containing percentage-of-sales rent provisions, against which the minimum rent may be applied. Typically, our lease terms are 5 to 15 years at initiation, with two to four 5-year extension options. None of our restaurant leases can be terminated early by the landlord other than as is customary in the context of a breach or default under the applicable lease.

Opening Date	City	State	Lease/Own
Del Frisco’s Double Eagle Steakhouse			
April 1996	Fort Worth	Texas	Lease
January 1997	Denver	Colorado	Lease
March 2000	New York	New York	Lease
July 2000	Las Vegas	Nevada	Lease
April 2007	Charlotte	North Carolina	Lease
November 2007	Houston	Texas	Lease
November 2008	Philadelphia	Pennsylvania	Lease
April 2011	Boston	Massachusetts	Lease
December 2012	Chicago	Illinois	Lease
September 2014	Washington D.C.		Lease
August 2015	Orlando	Florida	Lease(1)
September 2016	Dallas	Texas	Lease
May 2017	Plano	Texas	Lease
July 2018	Boston	Massachusetts	Lease
September 2018	Dunwoody	Georgia	Lease
October 2018	San Diego	California	Lease
Barcelona Wine Bar			
June 2003	Fairfield	Connecticut	Lease
January 2005	West Hartford	Connecticut	Lease
December 2006	New Haven	Connecticut	Lease
May 2009	Stamford	Connecticut	Lease
October 2011	Atlanta	Georgia	Lease
December 2012	Brookline	Massachusetts	Lease
September 2013	Washington D.C.		Lease
April 2015	Reston	Virginia	Lease
May 2015	Washington D.C.		Lease
December 2014	Boston	Massachusetts	Lease
April 2016	Atlanta	Georgia	Lease
December 2016	Norwalk	Connecticut	Lease
November 2016	Nashville	Tennessee	Lease
July 2017	Philadelphia	Pennsylvania	Lease
March 2018	Denver	Colorado	Lease
bartaco			
December 2010	Port Chester	New York	Lease(2)
September 2011	Stamford	Connecticut	Lease
August 2012	West Hartford	Connecticut	Lease

June 2013	Westport	Connecticut	Lease
July 2014	Atlanta	Georgia	Lease
April 2015	Reston	Virginia	Lease
August 2015	Atlanta	Georgia	Lease
March 2015	Atlanta	Georgia	Lease
October 2015	Nashville	Tennessee	Lease

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Opening Date	City	State	Lease/Own
July 2015	Tampa	Florida	Lease
October 2016	Orlando	Florida	Lease
July 2017	Boulder	Colorado	Lease
July 2017	Chapel Hill	North Carolina	Lease
March 2018	Fairfax	Virginia	Lease
May 2018	Fort Worth	Texas	Lease
July 2018	Raleigh	North Carolina	Lease
November 2018	Boston	Massachusetts	Lease
December 2018	Dallas	Texas	Lease
Del Frisco’s Grille			
August 2011	New York	New York	Lease
November 2011	Dallas	Texas	Lease
July 2012	Washington D.C.		Lease
October 2012	Atlanta	Georgia	Lease
July 2013	Santa Monica	California	Lease
October 2013	Fort Worth	Texas	Lease
November 2013	Chestnut Hill	Massachusetts	Lease
December 2013	Southlake	Texas	Lease
June 2014	Burlington	Massachusetts	Lease
August 2014	Irvine	California	Lease
September 2014	North Bethesda	Maryland	Lease
November 2014	Tampa	Florida	Lease
December 2014	Pasadena	California	Lease
May 2015	The Woodlands	Texas	Lease
June 2015	Plano	Texas	Lease
September 2015	Hoboken	New Jersey	Lease
November 2015	Cherry Creek	Colorado	Lease
June 2016	Huntington	New York	Lease
October 2016	Nashville	Tennessee	Lease
November 2016	Brentwood	Tennessee	Lease
June 2017	New York	New York	Lease
March 2018	Westwood	Massachusetts	Lease
November 2018	Fort Lauderdale	Florida	Lease
November 2018	Philadelphia	Pennsylvania	Lease

(1) During the fourth quarter of fiscal 2017, we executed a sale leaseback transaction for our Del Frisco's Double Eagle restaurant, located in Orlando, Florida. See Note 6 Leases in the notes to our consolidated financial statements.

(2) Current lease term expires on December 31, 2019. We have two remaining five-year option periods available that have not yet been exercised.

Our corporate headquarters is located in Irving, Texas. We lease the property for our corporate headquarters.

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Item 3. 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 matters and other issues. While it is impossible at this time to determine with certainty the ultimate outcome of these proceedings, lawsuits and claims, management believes that adequate provisions have been made and that the ultimate outcomes will not have a material adverse effect on our financial position and results of operations.

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Item 4. Mine Safety Disclosure

Not applicable.

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PART II
Item 5. Market for Registrant’s Common Equity, Related Stockholder matters and Issuer Purchases of Equity Securities
Information Regarding our Common Stock
Our common stock is listed on the Nasdaq Global Select Market under the symbol “DFRG”.
The market price of our common stock is subject to fluctuations in response to variations in our quarterly operating results, general trends in the restaurant industry as well as other factors, many of which are not within our control. In addition, broad market fluctuations, as well as general economic, business and political conditions may adversely affect the market for our common stock, regardless of our actual or projected performance.
The closing sale price of a share of our common stock, as reported by the Nasdaq Global Select Market, on March 6, 2019, was $8.11. As of March 6, 2019, there were five holders of record of our common stock, not including beneficial owners of shares registered in nominee or street name.
Issuer Purchases of Equity Securities
On February 27, 2018, our Board approved a new $50 million share repurchase program. We have suspended repurchases under this program, however, in order to preserve our liquidity and pursue deleveraging transactions.
Performance Graph
The following table and graph shows the cumulative total stockholder return on our Common Stock with the S&P 500 Stock Index, the S&P Small Cap 600 Index and the Dow Jones U.S. Restaurants & Bars Index, in each case assuming an initial investment of $100 on December 31, 2013 and full dividend reinvestment.
CUMULATIVE TOTAL RETURN
Assuming an investment of $100 and reinvestment of dividends

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	12/31/2013	12/30/2014	12/29/2015	12/27/2016	12/26/2017	12/25/2018
Del Frisco's Restaurant Group, Inc.	$ 100.00	$ 99.49	$ 68.69	$ 74.03	$ 65.55	$ 27.20
S&P 500 Stock Index	$ 100.00	$ 112.55	$ 112.44	$ 122.75	$ 145.02	$ 127.20
S&P SmallCap 600 Index	$ 100.00	$ 105.19	$ 103.29	$ 127.68	$ 141.28	$ 119.28
Dow Jones U.S. Restaurants & Bars Index	$ 100.00	$ 103.52	$ 124.85	$ 129.48	$ 154.18	$ 156.11

The stock performance graph should not be deemed filed or incorporated by reference into any other filing made by us under the Securities Act of 1933 or the Exchange Act, except to the extent that we specifically incorporate the stock performance graph by reference in another filing.

Information Regarding Dividends

We have never declared or paid any cash dividends on our common stock and do not anticipate paying cash dividends on our common stock for the foreseeable future. We anticipate that we will retain all of our future earnings, if any, for use in the development and expansion of our business and for general corporate purposes. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon our financial condition, operating results and other factors our Board of Directors deems relevant.

Our credit facility contains, and debt instruments that we enter into in the future may contain, covenants that place limitations on the amount of dividends we may pay. In addition, under Delaware law, our Board of Directors may declare dividends only to the extent of our surplus, which is defined as total assets at fair market value minus total liabilities, minus statutory capital, or, if there is no surplus, out of our net profits for the then current and immediately preceding year.

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Item 6. Selected Financial Data

The following table sets forth certain of our historical financial data. Other than with respect to the Operating Data, we have derived the selected historical consolidated financial data set forth below for fiscal years 2014 through 2018 from our audited consolidated financial statements and the related notes. Not all periods shown below are discussed in this Annual Report on Form 10-K. You should read this information together with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes to those statements included elsewhere in this Annual Report on Form 10-K. Historical results are not necessarily indicative of future performance.

	Fiscal Year Ended[1]				
(Amounts in thousands, except per share data)	December 25, 2018	December 26, 2017	December 27, 2016	December 29, 2015	December 30, 2014
Income Statement Data:					
Revenues	$378,216	$ 293,827	$ 273,884	$ 252,629	$ 220,893
Costs and expenses:					
Cost of sales	105,985	83,617	76,319	72,260	66,824
Restaurant operating expenses (excluding depreciation and amortization shown separately below)	189,890	141,520	129,018	116,666	96,983
Marketing and advertising costs	8,255	6,318	5,789	5,401	3,781
Pre-opening costs	9,351	2,182	3,446	5,228	4,735
General and administrative costs	39,650	26,891	23,315	21,122	18,598
Donations	335	836	—	—	—
Consulting project costs	6,420	2,786	—	—	—
Acquisition costs	11,123	—	—		
Reorganization severance	2,202	1,072	793	—	—
Lease termination and closing costs	3,779	(2)	142	1,381	—
Secondary public offering costs	—	—	—	—	5
Impairment charges[2]	2,115	22,930	—	3,248	3,536
Depreciation and amortization	21,713	17,595	14,903	12,825	9,945
Total costs and expenses	400,818	305,745	253,725	238,131	204,407
Insurance settlements	72	—	—	—	—
Operating (loss) income	(22,530)	(11,918)	20,159	14,498	16,486
Other income (expense), net:					
Interest, net of capitalized interest	(32,179)	(783)	(70)	(77)	(113)
Other	(810)	(1,435)	(433)	(216)	(47)
(Loss) income before income taxes	(55,519)	(14,136)	19,656	14,205	16,326
Income tax (benefit) expense[3]	(5,653)	(13,317)	5,321	3,169	5,002
(Loss) income from continuing operations	(49,866)	(819)	14,335	11,036	11,324
(Loss) income from discontinued operations, net of tax	(26,437)	(10,638)	3,431	4,962	5,273
Net (loss) income	$(76,303)	$ (11,457)	$ 17,766	$ 15,998	$ 16,597
Net (loss) income per average common share outstanding—basic					
(Loss) income from continuing operations	$(1.96)	$ (0.04)	$ 0.61	$ 0.47	$ 0.48
(Loss) income from discontinued operations	(1.04)	(0.49)	0.15	0.21	0.22
Net (loss) income	$(3.00)	$ (0.53)	$ 0.76	$ 0.68	$ 0.71

Net income (loss) per average common share outstanding—diluted					
(Loss) income from continuing operations	$(1.96)	$ (0.04)	$ 0.61	$ 0.47	$ 0.48
(Loss) income from discontinued operations	(1.04)	(0.49)	0.15	0.21	0.22
Net (loss) income	$(3.00)	$ (0.53)	$ 0.76	$ 0.68	$ 0.70
Weighted-average number of common shares outstanding:					
Basic:	25,412	21,570	23,322	23,380	23,518
Diluted:	25,412	21,570	23,435	23,517	23,740

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(Amounts in thousands)	December 25, 2018	December 26, 2017	December 27, 2016	December 29, 2015	December 30, 2014
Balance Sheet Data (at end of period):					
Cash and cash equivalents	$ 8,535	$ 4,553	$ 14,622	$ 5,176	$ 3,520
Working capital (deficit)[4]	$ (31,698)	$ (14,828)	$ (4,396)	$ (10,390)	$ (2,106)
Total assets	$ 726,032	$ 328,469	$ 370,782	$ 346,655	$ 319,666
Long-term debt	$ 320,736	$ 24,477	$ —	$ 4,500	$ —
Total stockholders' equity	$ 213,582	$ 189,087	$ 246,366	$ 227,699	$ 210,983

(Amounts in thousands)	Fiscal Year Ended[1] December 25, 2018	December 26, 2017	December 27, 2016	December 29, 2015	December 30, 2014
Other Financial Data:					
Net cash provided by operating activities	$ 11,168	$ 38,024	$ 49,815	$ 45,868	$ 42,766
Net cash used in investing activities	$ (382,485)	$ (23,929)	$ (34,168)	$ (46,530)	$ (47,956)
Net cash provided by (used in) financing activities	$ 375,299	$ (24,164)	$ (6,201)	$ 2,318	$ (4,964)
Capital Expenditures	$ 85,838	$ 39,426	$ 36,698	$ 46,150	$ 47,491
Operating Data:					
Total Restaurants (at end of period)[5]	73	37	35	32	27
Total comparable restaurants (at end of period[5][6])	60	30	26	20	16
Average sales per comparable restaurant	$ 6,200	$ 8,092	$ 8,452	$ 10,263	$ 10,753
Percentage change in comparable restaurant sales[6]	(0.9)%	(0.8)%	(1.0)%	(1.0)%	3.2%

(1) We utilize a 52- or 53-week accounting period which ends on the last Tuesday of December. The fiscal years ended December 25, 2018, December 26, 2017, December 27, 2016 and December 29, 2015 each had 52 weeks. The fiscal year ended December 30, 2014 had 53 weeks.

(2) In fiscal 2018, we incurred $2.1 million in impairment charges related to one Double Eagle and two Grille locations in connection with our decision to close the Double Eagle and the Grille locations. In fiscal 2017, we incurred $22.9 million in impairment charges related to one Double Eagle and four Grille locations in connection with our decision to these locations. See note 2 Summary of Significant Accounting Policies in the notes to our consolidated financial statements.

(3) The $5.7 million income tax benefit for the fiscal year ended December 25, 2018, is impacted by $11.2 million attributed to tax valuation allowance, established during fiscal 2018. The $13.3 million income tax benefit for the fiscal year ended December 26, 2017, was primarily attributable to permanent differences as a result of goodwill impairment and The Tax Cuts and Jobs Act, which permanently reduced the maximum federal corporate income tax rate from 35% to 21%. See note 7 in the notes to our consolidated financial statements.

(4) Defined as total current assets minus total current liabilities.

(5) Consistent with our consolidated financial statements, information has been presented on a continuing operations basis. Accordingly, all discontinued operations have been excluded.

(6) We consider a restaurant to be comparable in the first full fiscal quarter 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.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Del Frisco's develops, owns and operates four contemporary and complementary restaurants: Del Frisco's Double Eagle Steakhouse ("Double Eagle"), Barcelona Wine Bar ("Barcelona"), bartaco, and Del Frisco's Grille ("Grille"). As of the end of the period covered by this report, we owned and operated 73 restaurants in 16 states and the District of Columbia. Of the 73 restaurants we operated as of the end of the period covered by this report, there are 16 Double Eagle restaurants, 15 Barcelona restaurants, 18 bartaco restaurants and 24 Grille restaurants. During fiscal 2018, we opened three Double Eagle restaurants at Back Bay in Boston, Massachusetts, Atlanta, Georgia and San Diego, California, three bartaco restaurants, post Barteca Acquisition, in North Hills, North Carolina, Fort Point, Massachusetts and Dallas, Texas, and three Grille restaurants in Westwood, Massachusetts, Philadelphia, Pennsylvania and Fort Lauderdale, Florida.

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

- Disciplined Growth. Our long term target is to grow annual revenues through a combination of annual restaurant growth and comparable restaurant sales growth. We believe that there are significant opportunities to grow our concepts in both existing and new markets, where we believe we can generate attractive unit-level economics, which we view as the most significant driver of future growth. Our real estate process includes partnering with a third party master broker to source potential sites against a set of clear criteria for each brand, working with a third-party spatial analytics company, who have developed a model to determine the most attractive locations for each of our brands and a predictive sales model for specific sites, and a Real Estate Committee, consisting of members of the Board of Directors (the "Board") and senior management, which visits, assesses and approves each site. While we do not believe it is possible to guarantee every site will meet its expected returns, we expect these processes to increase the probability of a site meeting its financial return on investment hurdles. We believe our concepts' complementary market positioning and ability to coexist in the same markets, coupled with our flexible unit models and robust site assessment and approval processes, will allow us to expand each of our concepts into a greater number of locations. We will also continue to pursue opportunities to increase the sales at our existing restaurants through menu innovation, relevant and impactful marketing initiatives and loyalty programs, growing private dining and a continued focus on enhancing the guest experience.
- Operating and G&A Leverage. Our long term target is to grow Adjusted EBITDA. We will continue to focus on maintaining our strong restaurant level margins through operational efficiencies and economies of scale, including purchasing synergies across our concepts. As we open new restaurants our organizational structure will enable us to keep our Brand teams focused on individual Brand priorities while leveraging our support functions across a larger business, resulting in G&A reducing as a percentage of revenue over time. The Barteca Acquisition greatly enhances our ability to leverage the benefits of scale.
- Financing Strategies. Our long term target is to reduce our leverage through a combination of disciplined capital expenditures to support our restaurant count growth target and remodel needs, free cash flow generation from revenue growth and operating and G&A leverage, and other financing strategies to reduce our debt.

Our long term target is to grow the Double Eagle, Barcelona and bartaco brands by opening new restaurants. We expect to open no Grilles in 2019 or 2020 as we evaluate the performance of 2018 openings which incorporate lessons learned from our 2017 consulting project. In the fiscal 2018, we closed River Oaks, Texas, Little Rock, Arkansas, Stamford, Connecticut Grille restaurants, as well as Asheville, North Carolina and Homewood, Alabama bartaco restaurants. We also determined to close the Chicago, Illinois Double Eagle location during the first quarter of 2019. It generally takes 9 to 12 months after the signing of a lease or the closing of a purchase to complete construction and open a new restaurant. Additional time is sometimes required to obtain certain government approvals, permits and licenses, such as liquor licenses. See Item 1, Business for a discussion of our targeted average cash investment for each concept and other information regarding the opening of a new location.

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

- Comparable Restaurant Sales Growth. We consider a restaurant to be comparable during the first full fiscal quarter 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 60 and 30 restaurants at December 25, 2018 and December 26, 2017, 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.

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- 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 for Double Eagle and Grille are measured by the number of entrées ordered at our restaurants over a given time period. Barcelona and bartaco customer counts are measured by the number of customers counted in the dining room or on the patio over a given time period.
- Restaurant-Level EBITDA and Restaurant-Level EBITDA Margin. Restaurant-level EBITDA represents Adjusted EBITDA before general and administrative costs. Adjusted EBITDA represents operating income (loss) before depreciation and amortization, plus the sum of certain non-operating expenses, including pre-opening costs, donations, lease termination costs, acquisition costs, consulting project costs, reorganization severance, impairment charges and insurance settlements. Restaurant-level EBITDA margin is the ratio of Restaurant-level EBITDA to revenues. These non-GAAP operating measures are useful to both management and investors because they represent one means of gauging the overall profitability of our recurring and controllable core restaurant operations for each segment, and all segments at a consolidated level. These measures are not, however, indicative of our overall results, nor does restaurant-level profit accrue directly to the benefit of stockholders, primarily due to the exclusion of corporate-level expenses. See note 16 Segment Reporting, in the notes to our consolidated financial statements for a reconciliation of restaurant-level EBITDA to operating income at a consolidated level.

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. 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.

Change in Reporting Periods

Beginning in fiscal 2018, we changed to a fiscal quarter calendar where each quarter contains 13 weeks, other than in a 53-week year where the last quarter of the year will contain 14 weeks. Previously, the first three quarters of our fiscal year each consisted of 12 weeks and the fourth quarter consisted of 16 weeks or 17 weeks in a 53-week year.

Key Financial Definitions

Revenues. Revenues consist primarily of food and beverage sales at our restaurants, net of any discounts, such as management meals and employee meals, associated with each sale. Additionally, revenues are net of the cost of loyalty points earned associated with sales made to customers in our loyalty program. Revenues also include breakage income associated with gift cards. In fiscal 2018 and 2017, food comprised 68% and 70% of food and beverage sales with beverage comprising the remaining 32% and 30%, respectively. Revenues are directly influenced by the number of operating weeks in the relevant period and comparable restaurant sales growth. Comparable restaurant sales growth reflects the change in year-over-year sales for the comparable restaurant base. Comparable restaurant sales growth is primarily influenced by the number of customers eating in our restaurants, which is influenced by the popularity of our menu items, competition with other restaurants in each market, our customer mix and our ability to deliver a high quality dining experience, and the average check, which is driven by menu mix and pricing.

Cost of Sales. Cost of sales is comprised primarily of food and beverage expenses. We measure food and beverage expenses by tracking cost of sales as a percentage of revenues. Food and beverage expenses are generally influenced by the cost of food and beverage items, distribution costs and menu mix. The components of cost of sales are variable in nature, increase with revenues, are subject to increases or decreases based on fluctuations in commodity costs, including beef prices, and depend in part on the controls we have in place to manage costs of sales at our restaurants.

Restaurant Operating Expenses. We measure restaurant operating expenses as a percentage of revenues. Restaurant operating expenses include the following:

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- Labor expenses, which comprise restaurant management salaries, hourly staff payroll and other payroll-related expenses, including management bonus expenses, vacation pay, payroll taxes, fringe benefits and health insurance expenses and are measured by tracking hourly and total labor as a percentage of revenues;
- Occupancy expenses, which comprise all occupancy costs other than pre-opening rent expense, consisting of both fixed and variable portions of rent, common area maintenance charges, real estate property taxes and other related occupancy costs and are measured by tracking occupancy as a percentage of revenues; and

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- Other operating expenses, which comprise repairs and maintenance, utilities, operating supplies and other restaurant-level related operating expenses and are measured by tracking other operating expenses as a percentage of revenues.

Marketing and Advertising Costs. Marketing and advertising costs include all media, production and related costs for both local restaurant advertising and national marketing. We measure the efficiency of our marketing and advertising expenditures by tracking these costs as a percentage of total revenues. We have historically spent approximately 1.5% to 2.5% of total revenues on marketing and advertising and expect to maintain this level in the near term.

Pre-opening Costs. Pre-opening costs are costs incurred prior to opening a restaurant, and primarily consist of manager salaries, relocation costs, recruiting expenses, employee payroll and related training costs for new employees, including rehearsal of service activities, as well as non-cash lease costs incurred prior to opening. In addition, pre-opening expenses include marketing costs incurred prior to opening as well as meal expenses for entertaining local dignitaries, families and friends. Pre-opening costs can vary significantly from site to site, primarily due to the variability in non-cash lease costs at different restaurant locations. Excluding non-cash lease costs, we currently target pre-opening costs of $1.0 million for Double Eagle openings, $0.3 million for Barcelona openings, $0.3 million for bartaco openings, and $0.5 million for Grille openings.

General and Administrative Expenses. General and administrative expenses are comprised of costs related to certain corporate and administrative functions that support development and restaurant operations and provide an infrastructure to support future company growth. These expenses reflect management, supervisory and staff salaries and employee benefits, travel, information systems, training, corporate rent, professional and consulting fees, technology and market research. We measure general and administrative costs by tracking general and administrative expenses as a percentage of revenues. These expenses are expected to increase as a result of costs related to our anticipated growth, including substantial training costs and significant investments in 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.

Depreciation and Amortization. Depreciation and amortization includes depreciation of fixed assets and certain definite-life intangible assets. We depreciate capitalized leasehold improvements over the shorter of the total expected lease term or their estimated useful life. As we accelerate our restaurant openings, depreciation and amortization is expected to increase as a result of our increased capital expenditures.

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Results of Operations

The following table shows our operating results, as well as our operating results as a percentage of revenues for the periods indicated:

	Fiscal Year Ended					
(Amounts in thousands)	December 25, 2018		December 26, 2017		December 27, 2016	
Revenues	$378,216	100.0%	$293,827	100.0%	$273,884	100.0%
Costs and expenses:						
Cost of sales	105,985	28.0	83,617	28.5	76,319	27.9
Restaurant operating expenses (excluding depreciation and amortization shown separately below)	189,890	50.2	141,520	48.2	129,018	47.1
Marketing and advertising costs	8,255	2.2	6,318	2.2	5,789	2.1
Pre-opening costs	9,351	2.5	2,182	0.7	3,446	1.3
General and administrative costs	39,650	10.5	26,891	9.2	23,315	8.5
Donations	335	0.1	836	0.3	—	0.0
Consulting project costs	6,420	1.7	2,786	0.9	—	0.0
Acquisition costs	11,123	2.9	—	0.0	—	0.0
Reorganization severance	2,202	0.6	1,072	0.4	793.0	0.3
Lease termination and closing costs	3,779	1.0	(2)	0.0	142	0.1
Impairment charges	2,115	0.6	22,930	7.8	—	0.0
Depreciation and amortization	21,713	5.7	17,595	6.0	14,903	5.4
Total costs and expenses	400,818	106.0	305,745	104.1	253,725	92.6
Insurance settlements	72	0.0	—	0.0	—	0.0
Operating (loss) income	(22,530)	(6.0)	(11,918)	(4.1)	20,159	7.4
Other (expense) income, net:						
Interest, net of capitalized interest	(32,179)	(8.5)	(783)	(0.3)	(70)	0.0
Other	(810)	(0.2)	(1,435)	(0.5)	(433)	(0.2)
(Loss) income before income taxes	(55,519)	(14.7)	(14,136)	(4.8)	19,656	7.2
Income tax (benefit) expense	(5,653)	(1.5)	(13,317)	(4.5)	5,321	1.9
(Loss) income income from continuing operations	(49,866)	(13.2)	(819)	(0.3)	14,335	5.2
(Loss) income from discontinued operations, net of tax[(1)]	(26,437)	(7.0)	(10,638)	(3.6)	3,431	1.3
Net (loss) income	$(76,303)	(20.2)%	$(11,457)	(3.9)%	$17,766	6.5 %

(1) Discontinued operations for fiscal 2018 includes the sale of Sullivan's. See Note 4, Dispositions in the notes to our consolidated financial statements for information regarding discontinued operations.

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Fiscal Year Ended December 25, 2018 (52 weeks) Compared to Fiscal Year Ended December 26, 2017 (52 weeks)
The following tables show our operating results by operating segment, as well as our operating results as a percentage of revenues, for the fiscal years ended December 25, 2018 and December 26, 2017. The tables below include Restaurant-level EBITDA, a non-GAAP measure. See Note 16, Segment Reporting in the notes to our consolidated financial statements for additional information on this metric, including a reconciliation to operating income, the most directly comparable GAAP measure.

	Fiscal Year Ended December 25, 2018									
(Amounts in thousands except operating weeks)	Del Frisco's		Barcelona		bartaco		Grille		Consolidated	
Revenues	$182,957	100.0%	$34,084	100.0%	$40,186	100.0%	$120,989	100.0%	$378,216	100.0%
Costs and expenses:										
Cost of sales	54,559	29.8	9,123	26.8	9,232	23.0	33,071	27.3	105,985	28.0
Restaurant operating expenses:										
Labor	44,600	24.4	10,596	31.1	13,388	33.3	39,259	32.4	107,843	28.5
Operating expenses	21,815	11.9	4,698	13.8	5,576	13.9	17,560	14.5	49,649	13.1
Occupancy	15,161	8.3	1,855	5.4	1,943	4.8	13,439	11.1	32,398	8.6
Restaurant operating expenses	81,576	44.6	17,149	50.3	20,907	52.0	70,258	58.1	189,890	50.2
Marketing and advertising costs	4,981	2.7	187	0.5	178	0.4	2,909	2.4	8,255	2.2
Restaurant-level EBITDA	$41,841	22.9 %	$7,625	22.4 %	$9,869	24.6 %	$14,751	12.2 %	$74,086	19.6 %
Restaurant operating weeks	717		416		459		1,229		2,821	
Average weekly volume	$255		$82		$88		$98		$134	

	Fiscal Year Ended December 26, 2017									
(Amounts in thousands except operating weeks)	Del Frisco's		Barcelona		bartaco		Grille		Consolidated	
Revenues	$176,713	100.0%	$ —	—%	$ —	—%	$117,114	100.0%	$293,827	100.0%
Costs and expenses:										
Cost of sales	52,944	30.0	—	—	—	—	30,673	26.2	83,617	28.5
Restaurant operating expenses:										
Labor	41,935	23.7	—	—	—	—	39,163	33.4	81,098	27.6
Operating expenses	18,846	10.7	—	—	—	—	15,849	13.5	34,695	11.8
Occupancy	12,511	7.1	—	—	—	—	13,216	11.3	25,727	8.8
Restaurant operating expenses	73,292	41.5	—	—	—	—	68,228	58.3	141,520	48.2
Marketing and advertising costs	3,568	2.0	—	—	—	—	2,750	2.3	6,318	2.2
Restaurant-level EBITDA	$46,909	26.5 %	$ —	—%	$ —	—%	$15,463	13.2 %	$62,372	21.2 %
Restaurant operating weeks	655		—		—		1,221		1,876	
Average weekly volume	$270		$ —		$ —		$96		$157	

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Revenues. Consolidated revenues increased $84.4 million, or 28.7%, to $378.2 million in fiscal 2018 from $293.8 million in fiscal 2017. This increase was due to 945 net additional operating weeks in fiscal 2018 primarily as a result of the Barteca Acquisition, coupled with nine new restaurant openings over the past four quarters three Double Eagle restaurants at Back Bay in Boston, Massachusetts, Atlanta, Georgia and San Diego, California three bartaco restaurants, post Barteca Acquisition, in North Hills, North Carolina, Fort Point, Massachusetts and Dallas, Texas and three Grille restaurants in Westwood, Massachusetts, Philadelphia, Pennsylvania and Fort Lauderdale, Florida. This increase was partially offset by decreased revenue at our comparable restaurants, the closure of River Oaks, Texas, Little Rock, Arkansas and Stamford, Connecticut Grille restaurants, and Asheville, North Carolina and Homewood, Alabama bartaco restaurants. Comparable restaurant sales decreased 0.9%, comprised of 2.9% decrease in customer counts and 2.0% increase in average check, primarily driven by mix resulting from menu initiatives. Excluding Barcelona and bartaco brands, comparable restaurant sales decreased 1.2% in fiscal 2018, comprised of a 7.1% decrease in customer counts, partially offset by a 5.9% increase in average check.

Del Frisco’s Double Eagle revenues increased $6.2 million, or 3.5%, to $183.0 million in fiscal 2018 from $176.7 million in fiscal 2017. This increase was primarily due to 62 additional operating weeks resulting from three new restaurant openings at Back Bay in Boston, Massachusetts, Atlanta, Georgia and San Diego, California and the full year impact of the Double Eagle in Plano, Texas opened in fiscal 2017. This increase was partially offset by a 1.6% decrease in comparable restaurant sales, comprised of a 4.4% decrease in customer counts, partially offset by a 2.8% increase in average check.

Barcelona revenues were $34.1 million in fiscal 2018. Revenues for Barcelona only includes activity for the third and fourth quarter of fiscal 2018, because the business was acquired during the third quarter of 2018. Comparable restaurant sales increased 2.2% comprised of a 4.7% increase in customer counts, partially offset by a 2.5% decrease in average check.

bartaco revenues were $40.2 million in fiscal 2018. Revenues for bartaco only includes activity for the third and fourth quarter of fiscal 2018, because the business was acquired during the third quarter of 2018. We opened three bartaco restaurants in fiscal 2018, post Barteca Acquisition, in North Hills, North Carolina, Fort Point, Massachusetts and Dallas, Texas. Comparable restaurant sales decreased 2.4% comprised of a 0.3% decrease in customer counts and a 2.1% decrease in average check.

The Grille’s revenues increased $3.9 million, or 3.3%, to $121.0 million in fiscal 2018 from $117.1 million in fiscal 2017. This increase was driven by 8 net additional operating weeks resulting from three new restaurant opening in Westwood, Massachusetts, Philadelphia, Pennsylvania and Fort Lauderdale, Florida and the full year impact of the Grille at Brookfield Place in New York City, NY opened in fiscal 2017. This increase was partially offset by a 0.5% decrease in total comparable restaurant sales, comprised of a 7.7% increase in average check and by a 8.2% decrease in customer counts, and the closure of River Oaks, Texas, Little Rock, Arkansas and Stamford, Connecticut Grille restaurants in fiscal 2018.

Cost of Sales. Consolidated cost of sales increased $22.4 million, or 26.8%, to $106.0 million in fiscal 2018 from $83.6 million in fiscal 2017. This increase was primarily due to an additional 945 net operating weeks in fiscal 2018, as discussed above. As a percentage of consolidated revenues, consolidated cost of sales decreased to 28.0% in fiscal 2018 from 28.5% in fiscal 2017, due to a favorable commodity market in 2018 and a number of supply chain cost reduction initiatives.

As a percentage of revenues, Del Frisco’s Double Eagle cost of sales decreased to 29.8% during fiscal 2018 from 30.0% in fiscal 2017. This decrease in cost of sales, as a percentage of revenues, was primarily due to lower beef and liquor costs, partially offset by higher seafood and wine costs.

As a percentage of revenues, Barcelona's cost of sales was 26.8% during fiscal 2018.

As a percentage of revenues, bartaco's cost of sales was 23.0% during fiscal 2018.

As a percentage of revenues, the Grille’s cost of sales increased to 27.3% during fiscal 2018 from 26.2% in fiscal 2017. This increase in cost of sales, as a percentage of revenues, was primarily due to a menumix shift following the new menu launch in the fourth quarter of 2017.

Restaurant Operating Expenses. Consolidated restaurant operating expenses increased $48.4 million, or 34.2%, to $189.9 million in fiscal 2018 from $141.5 million in fiscal 2017. This increase was primarily due to an additional 945 net operating weeks in fiscal 2018, primarily as a result of Barteca Acquisition as discussed above. As a percentage of consolidated revenues, consolidated restaurant operating expenses increased to 50.2% in fiscal 2018 from 48.2% in fiscal 2017, primarily due to the new restaurant inefficiencies in the first few months of operations for a new restaurant.

As a percentage of revenues, Del Frisco’s Double Eagle restaurant operating expenses increased to 44.6% during fiscal 2018 from 41.5% in fiscal 2017. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher occupancy and other restaurant operating costs, partially offset by lower labor costs.

As a percentage of revenues, Barcelona restaurant operating expenses were 50.3% during fiscal 2018.

As a percentage of revenues, bartaco restaurant operating expenses were 52.0% during fiscal 2018.
As a percentage of revenues, the Grille's restaurant operating expenses decreased to 58.1% during fiscal 2018 from 58.3% in fiscal 2017. This decrease in restaurant operating expenses, as a percentage of revenues, was due to lower labor and occupancy cost, partially offset by higher other restaurant operating costs.
Marketing and Advertising Costs. Consolidated marketing and advertising costs increased by $1.9 million, or 30.7%, to $8.3 million in fiscal 2018 from $6.3 million in fiscal 2017. As a percentage of consolidated revenues, consolidated marketing and advertising costs remained at 2.2% in fiscal 2018 compared to fiscal 2017.
As a percentage of revenues, Del Frisco's Double Eagle marketing and advertising costs increased to 2.7% in fiscal 2018 compared to fiscal 2017.
As a percentage of revenues, Barcelona marketing and advertising costs were 0.5% during fiscal 2018.
As a percentage of revenues, bartaco marketing and advertising costs were 0.4% during fiscal 2018.
As a percentage of revenues, the Grille's marketing and advertising costs increased to 2.4% in fiscal 2018 compared to fiscal 2017.
Pre-opening Costs. Pre-opening costs increased $7.2 million to $9.4 million in fiscal 2018 from $2.2 million in fiscal 2017. We opened three Double Eagle restaurants, three bartaco restaurants post Barteca Acquisition, and three Grille restaurants in fiscal 2018 compared to one Double Eagle and one Grille in fiscal 2017.
General and Administrative Expenses. General and administrative expenses increased $12.8 million, or 47.4%, to $39.7 million in fiscal 2018 from $26.9 million in fiscal 2017. This increase was primarily related to the Barteca Acquisition, and additional compensation costs, including stock-based compensation, related to growth in the number of restaurant support center and regional management-level personnel to support recent and anticipated growth and marketing efforts, as well as non-recurring legal costs. As a percentage of revenues, general and administrative expenses increased to 10.5% in fiscal 2018 from 9.2% in fiscal 2017. General and administrative costs are expected to continue to increase as a result of 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.
Donations. Donations were $0.3 million in fiscal 2018. Donations were $0.8 million in fiscal 2017 and were primarily related to donations to the Houston area food bank to support victims affected by Hurricane Harvey in the third quarter of 2017.
Consulting Project Costs. Consulting project costs were $6.4 million in fiscal 2018. These costs are primarily related to the Enterprise resource planning ("ERP") project, and we expect these costs to continue during fiscal 2019. Consulting project costs were $2.8 million in fiscal 2017, primarily related to consumer insight research supporting the Grille restaurants, and to a lesser extent supporting the Double Eagle restaurants.
Acquisition Costs. Acquisition costs were $11.1 million in fiscal 2018. These costs are primarily related to the Barteca Acquisition. We expect these costs to continue during fiscal 2019. No such costs were incurred in fiscal 2017.
Reorganization Severance. Reorganization severance costs were $2.2 million in fiscal 2018 and $1.1 million in fiscal 2017. These costs are primarily related to the costs associated with replacing certain employees in leadership positions as a part of strategic initiatives effected by our executive leadership team.
Lease termination and closing costs. In fiscal 2018, we incurred approximately $3.8 million in charges related to the closure of the River Oaks, Texas, Little Rock, Arkansas and Stamford, Connecticut Grille restaurants, Asheville, North Carolina and Homewood, Alabama bartaco restaurants, and lease termination cost related to our old corporate office in Southlake, Texas.
Impairment Charges. During fiscal 2018, we determined that the carrying value of one Double Eagle and two Grille restaurants was most likely not recoverable, due in part by our determination to close the Double Eagle location during the first quarter of 2019. Therefore, we recorded a non-cash impairment charge of $2.1 million, of which $2.0 million was related to the Chicago Double Eagle restaurant. This charge was based on the difference between the carrying values of the restaurant assets and the estimated fair values of leasehold improvements, furniture and restaurant equipment that may be transferred to other restaurant locations. During the fourth quarter of fiscal 2017, we

determined that the carrying values of one Double Eagle and four Grille locations exceeded their estimated future cash flows, due in part by our determination to close the Grille locations, and recognized a combined, $22.9 million impairment charge. This charge was based on the difference between the carrying values of the restaurant assets and the estimated fair values of leasehold improvements, furniture and restaurant equipment that may be transferred to other restaurant locations. See notes 2 Summary of Significant Accounting Policies to our consolidated financial statements.

Depreciation and Amortization. Depreciation and amortization increased $4.1 million, or 23%, to $21.7 million in fiscal 2018 from $17.6 million in fiscal 2017. The increase in depreciation and amortization expense was primarily the result of the Barteca Acquisition, coupled with the new assets related to nine restaurants opened in fiscal 2018 and two restaurants opened in fiscal 2017, as well as for existing restaurants that were remodeled during fiscal 2018 and fiscal 2017.

Interest Expense. Interest expense increased to $32.2 million in 2018, net of $1.1 million capitalized interest from $0.8 million in 2017. The increase in interest expense primarily resulted from new term debt issued, and loss on extinguishment of debt of $18.3 million during fiscal 2018.

Provision (Benefit) for Income Taxes. The effective income tax rate was 10.2% in fiscal 2018 and 94.2% in fiscal 2017. The change in the effective tax rate resulted in income tax benefit of $5.7 million in fiscal 2018 compared to income tax benefit of $13.3 million in fiscal 2017. The factors that cause the effective tax rates to vary from the federal statutory rate of 21% were primarily the valuation allowance established during fiscal 2018 and the effect of certain permanent differences. transaction costs incurred for the Barteca Acquisition, and the impact of FICA tip and other credits. See Note 7 Income Taxes to the consolidated financial statements.

Discontinued Operations. In fiscal 2018 we incurred a loss of $26.4 million, net of tax, from discontinued operations, primarily due to the loss on Sullivan's sale of $23.6 million. In fiscal 2017 we incurred a loss of $10.6 million, net of tax, from discontinued operations. See Note 4, Dispositions n the notes to our consolidated financial statements for information regarding discontinued operations.

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Fiscal Year Ended December 26, 2017 (52 weeks) Compared to Fiscal Year Ended December 27, 2016 (52 weeks)
The following tables show our operating results by operating segment, as well as our operating results as a percentage of revenues, for the fiscal years ended December 26, 2017 and December 27, 2016. The tables below include Restaurant-level EBITDA, a non-GAAP measure. See Note 16, Segment Reporting in the notes to our consolidated financial statements for additional information on this metric, including a reconciliation to operating income, the most directly comparable GAAP measure.

	Fiscal Year Ended December 26, 2017									
(Amounts in thousands except operating weeks)	Del Frisco's		Barcelona		bartaco		Grille		Consolidated	
Revenues	$176,713	100.0%	$ —	—%	$ —	—%	$117,114	100.0%	$293,827	100.0%
Costs and expenses:										
Cost of sales	52,944	30.0	—	—	—	—	30,673	26.2	83,617	28.5
Restaurant operating expenses:										
Labor	41,935	23.7	—	—	—	—	39,163	33.4	81,098	27.6
Operating expenses	18,846	10.7	—	—	—	—	15,849	13.5	34,695	11.8
Occupancy	12,511	7.1	—	—	—	—	13,216	11.3	25,727	8.8
Restaurant operating expenses	73,292	41.5	—	—	—	—	68,228	58.3	141,520	48.2
Marketing and advertising costs	3,568	2.0	—	—	—	—	2,750	2.3	6,318	2.2
Restaurant-level EBITDA	$46,909	26.5 %	$ —	—%	$ —	—%	$15,463	13.2 %	$62,372	21.2 %
Restaurant operating weeks	655		—		—		1,221		1,876	
Average weekly volume	$270		$ —		$ —		$96		$157	

	Fiscal Year Ended December 27, 2016									
(Amounts in thousands except operating weeks)	Del Frisco's		Barcelona		bartaco		Grille		Consolidated	
Revenues	$166,885	100.0%	$ —	—%	$ —	—%	$106,999	100.0%	$273,884	100.0%
Costs and expenses:										
Cost of sales	48,968	29.3	—	—	—	—	27,351	25.6	76,319	27.9
Restaurant operating expenses:										
Labor	38,253	22.9	—	—	—	—	35,146	32.8	73,399	26.8
Operating expenses	18,366	11.0	—	—	—	—	14,618	13.7	32,984	12.0
Occupancy	11,080	6.6	—	—	—	—	11,555	10.8	22,635	8.3
Restaurant operating expenses	67,699	40.6	—	—	—	—	61,319	57.3	129,018	47.1
Marketing and advertising costs	3,341	2.0	—	—	—	—	2,448	2.3	5,789	2.1
Restaurant-level EBITDA	$46,877	28.1 %	$ —	—%	$ —	—%	$15,881	14.8 %	$62,758	22.9 %
Restaurant operating weeks	620		—		—		1,079		1,699	
Average weekly volume	$269		$ —		$ —		$99		$161	

Revenues. Consolidated revenues increased $19.9 million, or 7.3%, to $293.8 million in fiscal 2017 from $273.9 million in fiscal 2016. This increase was due to 177 net additional operating weeks in fiscal 2017 resulting from two new restaurant openings. Comparable restaurant sales decreased 0.8%, comprised of 0.1% decrease in customer counts and 0.7% decrease in average check.

Del Frisco's Double Eagle revenues increased $9.8 million, or 5.9%, to $176.7 million in fiscal 2017 from $166.9 million in fiscal 2016. This increase was primarily due to 35 additional operating weeks resulting from one new restaurant opening in Plano, Texas, partially offset by 0.1% decrease in comparable restaurant sales, comprised of a 0.2% decrease in customer counts, partially offset by a 0.1% increase in average check.

The Grille's revenues increased $10.1 million, or 9.5%, to $117.1 million in fiscal 2017 from $107.0 million in fiscal 2016. This increase was driven by 142 net additional operating weeks resulting from one new restaurant opening at Brookfield Place in New York City, NY and the full year impact of three restaurants opened in fiscal 2016. This increase was partially offset by a 1.9% decrease in total comparable restaurant sales, comprised of a 1.8% decrease in average check and by a 0.1% decrease in customer counts.

Cost of Sales. Consolidated cost of sales increased $7.3 million, or 9.6%, to $83.6 million in fiscal 2017 from $76.3 million in fiscal 2016. This increase was primarily due to an additional 177 net operating weeks in fiscal 2017, as discussed above. As a percentage of consolidated revenues, consolidated cost of sales increased to 28.5% in fiscal 2017 from 27.9% in fiscal 2016.

As a percentage of revenues, Del Frisco's Double Eagle cost of sales increased to 30.0% during fiscal 2017 from 29.3% in fiscal 2016. This increase in cost of sales, as a percentage of revenues, was primarily due to higher beef, seafood, and wine costs.

As a percentage of revenues, the Grille's cost of sales increased to 26.2% during fiscal 2017 from 25.6% in fiscal 2016. This increase in cost of sales, as a percentage of revenues, was primarily due to higher beef costs partially offset by lower seafood and wine costs.

Restaurant Operating Expenses. Consolidated restaurant operating expenses increased $12.5 million, or 9.7%, to $141.5 million in fiscal 2017 from $129.0 million in fiscal 2016. This increase was primarily due to an additional 177 net operating weeks in fiscal 2017, as discussed above. As a percentage of consolidated revenues, consolidated restaurant operating expenses increased to 48.2% in fiscal 2017 from 47.1% in fiscal 2016.

As a percentage of revenues, Del Frisco's Double Eagle restaurant operating expenses increased to 41.5% during fiscal 2017 from 40.6% in fiscal 2016. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher occupancy, labor costs and other restaurant operating costs.

As a percentage of revenues, the Grille's restaurant operating expenses increased to 58.3% during fiscal 2017 from 57.3% in fiscal 2016. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher labor, occupancy and other restaurant operating costs.

Marketing and Advertising Costs. Consolidated marketing and advertising costs increased by $0.5 million, or 9.1%, to $6.3 million in fiscal 2017 from $5.8 million in fiscal 2016. As a percentage of consolidated revenues, consolidated marketing and advertising costs increased to 2.2% in fiscal 2017 compared to fiscal 2016.

As a percentage of revenues, Del Frisco's Double Eagle marketing and advertising costs remained at 2.0% in fiscal 2017 compared to fiscal 2016.

As a percentage of revenues, the Grille's marketing and advertising costs remained at 2.3% in fiscal 2017 compared to fiscal 2016.

Pre-opening Costs. Pre-opening costs decreased $1.3 million to $2.2 million in fiscal 2017 from $3.4 million in fiscal 2016. We opened one Double Eagle and one Grille in fiscal 2017 compared to one Double Eagle and three new Grille restaurants, which were opened in fiscal 2016. The relocated Dallas Del Frisco's Double Eagle was treated as a new restaurant opening and incurred customary pre-opening expenses in preparation for the opening of the restaurant.

General and Administrative Expenses. General and administrative expenses increased $3.6 million or 15.3%, to $26.9 million in fiscal 2017 from $23.3 million in fiscal 2016. This increase was primarily related to additional compensation costs related to growth in the number of restaurant support center and regional management-level personnel to support recent and anticipated growth and marketing efforts, and professional fees primarily driven by increased fees associated with the year-end integrated audit of our consolidated financial statements in connection with losing our "emerging growth" company status. As a percentage of revenues, general and administrative expenses increased to 9.2% in fiscal 2017 from 8.5% in fiscal 2016. General and administrative costs are expected to continue to increase as a result of 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.

Donations. Donations were $0.8 million in fiscal 2017 and were primarily related to donations to the Houston area food bank to support victims affected by Hurricane Harvey in the third quarter of 2017. Donations were minimal in fiscal 2016.

Consulting Project Costs. Consulting project costs were $2.8 million in fiscal 2017. These costs are primarily related to consumer insight research supporting the Grille restaurants, and to a lesser extent supporting the Double Eagle restaurants. No such costs were incurred in fiscal 2016.

Reorganization Severance. Reorganization severance costs were $1.1 million in fiscal 2017 and $0.8 million in fiscal 2016. These costs are primarily related to the costs associated with replacing certain employees in leadership positions as a part of strategic initiatives effected by our executive leadership team.

Impairment Charges. During the fourth quarter of fiscal 2017, we determined that the carrying values of one Double Eagle and four Grille locations exceeded their estimated future cash flows, due in part by our determination to close the Grille locations, and recognized a combined, $22.9 million impairment charge. This charge was based on the difference between the carrying values of the restaurant assets and the estimated fair values of leasehold improvements, furniture and restaurant equipment that may be transferred to other restaurant locations. See notes 2 Summary of Significant Accounting Policies to our consolidated financial statements. No such costs were incurred in fiscal 2016.

Depreciation and Amortization. Depreciation and amortization increased $2.7 million, or 18.1%, to $17.6 million in fiscal 2017 from $14.9 million in fiscal 2016. The increase in depreciation and amortization expense primarily resulted from new assets related to two restaurants opened in fiscal 2017 and four restaurants opened in fiscal 2016, as well as for existing restaurants that were remodeled during fiscal 2017 and fiscal 2016.

Interest Expense. Interest expense increased to $0.8 million in 2017, net of nominal capitalized interest from $0.1 million in 2016. The increase in interest expense primarily resulted from increased borrowings from our revolving credit facility during fiscal 2017.

Provision (Benefit) for Income Taxes. The effective income tax rate had a negative rate of 94.2% in fiscal 2017 and 27.1% in fiscal 2016. The change in the effective tax rate resulted in income tax benefit of $13.3 million in fiscal 2017 compared to income tax expense of $5.3 million in fiscal 2016. The decrease in the effective tax rate was primarily attributable to permanent differences as a result of goodwill impairment and The Tax Cuts and Jobs Act or (the TCJA) which permanently reduced the maximum federal corporate income tax rate from 35% to 21% effective for tax years beginning after December 31, 2017, as well as the impact of the FICA tip and other credits, partially offset by state income taxes and certain non-deductible expenses. The change in the tax rate required deferred tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. The impact of the rate reduction on our 2017 income tax provision is a $4.6 million tax benefit due to the remeasurement of deferred tax assets and liabilities.

Discontinued Operations. In fiscal 2017 we incurred a loss of $10.6 million, net of tax, from discontinued operations. In fiscal 2016 we had an income of $3.4 million, net of tax, from discontinued operations. See Note 4, Dispositions in the notes to our consolidated financial statements for information regarding discontinued operations.

Liquidity and Capital Resources

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.

Our principal liquidity requirements are our lease obligations and our working capital and capital expenditure needs and any principal and interest obligations on our debt. Subject to our operating performance, which, if significantly adversely affected, would adversely affect the availability of funds, 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 existing borrowings available under our credit facility discussed below. We cannot be sure that these sources will be sufficient to finance our operations, however, and we may seek additional financing in the future. As of December 25, 2018, we had cash and cash equivalents of approximately $8.5 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 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.

Cash Flows

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The following table summarizes the consolidated statement of cash flows for the fiscal years ended December 25, 2018, December 26, 2017 and December 27, 2016:

(Amounts in thousands)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Net cash provided by operating activities	$11,168	$ 38,024	$ 49,815
Net cash used in investing activities	(382,485)	(23,929)	(34,168)
Net cash provided by (used in) financing activities	375,299	(24,164)	(6,201)
Net change in cash and cash equivalents	$4,016	$ (10,028)	$ 9,446

Operating Activities. Net cash flows provided by operating activities decreased $26.9 million during fiscal 2018 as compared to fiscal 2017, primarily due to a $64.8 million decrease in net income, a $3.0 million net decrease in cash related to inventory, a $1.1 million net decrease in insurance settlement, a $1.0 million net decrease in other liabilities, and a $0.6 million net decrease in deferred revenue, partially offset by a $21.2 million net increase in accounts payable, a $10.8 million net increase in deferred income taxes, and a $2.8 million net increase in lease incentives receivable, and and other net changes in certain operating assets and liabilities. Net cash flows provided by operating activities decreased $11.8 million during fiscal 2017 as compared to fiscal 2016 primarily due to a $16.5 million net decrease in in deferred income taxes, a $7.3 million net decrease in other liabilities, a $2.5 million net decrease in inventory, a $2.3 million net decrease in prepaid expenses and other assets, and a $1.7 million net decrease in income taxes, partially offset by a $5.4 million net increase in lease incentives receivable, a $1.2 million net increase in insurance settlement, and a $0.9 million net increase in cash related to accounts payable and other net changes in certain operating assets and liabilities (as noted in the consolidated statement of cash flows). Cash flows from operating activities was $49.8 million in fiscal 2016, consisting primarily of net income of $17.8 million, adjustments for depreciation, amortization, deferred income taxes and other non-cash charges totaling $23.0 million, a net increase of $6.2 million in income taxes and a $2.6 million increase in other liabilities. These cash inflows were partially offset by a $5.5 million decrease in accounts payable and a $3.1 million decrease in lease incentives receivable.

Investing Activities. Net cash used in investing activities in fiscal 2018 was $382.5 million, consisting of $325.2 million related to the Barteca Acquisition and $85.8 million for the purchases of property and equipment primarily related to construction of four Double Eagle restaurants, one Barcelona restaurant, four bartaco restaurants and three Grille restaurants and remodel activity at existing restaurants, partially offset by proceeds of $29.9 million from the sale of our Sullivan's business. Net cash used in investing activities in fiscal 2017 was $23.9 million, consisting primarily of purchases of leasehold improvements, property and equipment, as well as a trade name acquisition (see note 5 to the consolidated financial statements for information related to the trade name acquisition). These purchases were primarily related to construction of three Grilles and one Double Eagle during fiscal 2016, as well as remodel activity at existing restaurants. Net cash used in investing activities in fiscal 2016 was $34.2 million, consisting primarily of purchases of leasehold improvements, property and equipment, as well as a trade name acquisition (see Note 5 Intangible Assets and Goodwill to the consolidated financial statements for information related to the trade name acquisition). These purchases were primarily related to construction of six Grilles and one Double Eagle during fiscal 2015, as well as remodel activity at existing restaurants.

Financing Activities. Net cash provided by financing activities in fiscal 2018 was $375.3 million, which was primarily due to $475.7 million in proceeds from borrowings and $97.2 million in proceeds from sale of common stock, partially offset by $176.7 million in payments on borrowings and $21.5 million payment of debt issuance costs. Net cash used in financing activities in fiscal 2017 was $24.2 million, which was comprised of $37.3 million in payments toward the outstanding balance under our credit facility and $50.0 million in share repurchases, partially offset by $58.8 million in proceeds from borrowings under our credit facility and $1.5 million in proceeds from the exercise of stock options. Net cash used in financing activities in fiscal 2016 was $6.2 million, which was comprised of $16.5 million in payments under credit facility and $4.8 million in share repurchases, partially offset by $12.0 million in proceeds from borrowings on the credit facility and $3.2 million in proceeds from the exercise of stock

options.
Capital Expenditures
We typically target an average cash investment of approximately$8.0 million to $9.0 million for a new Double Eagle, $3.1 million to $3.5 million for a new Barcelona, $2.5 million to $3.0 million for a new bartaco, and $5.0 million to $6.0 million for a new Grille.
Credit Facility
On October 15, 2012, we entered into a credit facility that provided for a three-year unsecured revolving credit facility of up to $25 million. Borrowings under the credit facility bear interest at 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.

On June 30, 2015, we entered into a Second Amendment to the credit facility. The amendment, among other things, extended the termination date of the credit facility to October 15, 2017 and modified the revolving credit commitment to $15 million, with such amount subject to increases in increments of $5 million at our request, up to a maximum amount of $30 million.

On December 21, 2016, we entered into a Third Amendment to the credit facility. The amendment, among other things, extended the termination date of the credit facility to October 15, 2019 and modified the revolving credit commitment to $10 million, with such amount subject to increases in increments of $5 million at our request, up to a maximum amount of $30 million.

On April 21, 2017, we entered into a Fourth Amendment to our credit facility with JP Morgan Chase Bank that lowered the minimum fixed charge coverage ratio, as defined in the agreement, from 2.00 to 1.25, effective January 1, 2017.

On May 24, 2017, we entered into a Fifth Amendment to our credit facility with JP Morgan Chase Bank. The Amendment, among other things, increased the capacity by which the Revolving Credit Commitment can be increased by $20 million. Such commitment increases can be made in increments of $5 million at the Company’s request, up to a maximum amount of $50 million. Additionally, the Amendment modified the definition of Adjusted EBITDA to provide for the exclusion of certain one-time expenses.

On July 12, 2017, we executed an agreement to borrow against the investments in our deferred compensation plan to pay out funds due to plan participants instead of using operating cash flows. The loan does not have an expiration date or defined payment terms, and accrues interest at a rate of 1%, which is net of the 3% that is earned by the investments being loaned against. As of December 25, 2018, there was approximately $3.0 million of outstanding borrowings on this loan.

On October 20, 2017, we entered into a Sixth Amendment to our credit facility with JP Morgan Chase Bank. The Amendment, among other things, consented to the Company's sale leaseback of its Orlando, Florida Del Frisco's Double Eagle Steakhouse location. Additionally, the Amendment modified the definition of the Operating Leverage Ratio under the Loan Agreement.

On June 27, 2018, we completed the acquisition of Barteca Holdings. In connection with the completion of the Barteca Acquisition, we entered into a new credit agreement that provides for (i) senior secured term loans in an aggregate principal amount of $390.0 million (“Term Loan B”) and (ii) senior secured revolving credit commitments in an aggregate principal amount of $50.0 million (“Revolving Loan,” and, collectively with the term loans, the “2018 Credit Facility”). See Note 7, Long-Term Debt in the notes to our consolidated financial statements for information regarding our credit facility.

On August 6, 2018, we received $97.8 million of proceeds from a public offering of common stock that were used to repay a portion of the $390.0 million of the Term Loan B pursuant to an existing prepayment option.

On August 27, 2018, we amended ("The First Amendment") Term Loan B ("Amended Term Loan B"). The First Amendment amended the 2018 Credit Facility to, among other things, completely re-syndicate the Amended Term Loan B and provide the Company with additional term loans ("Additional Term Loans") in an aggregate principal amount of $18.0 million. The First Amendment also amended the 2018 Credit Facility to increase the interest rate applicable to the Additional Term Loans and the existing term loans outstanding under the 2018 Credit Facility to, at our option, a rate per annum equal to either a LIBOR or ABR rate, plus an applicable margin, which is equal to 6.00% for LIBOR loans and 5.00% for ABR loans.

Amounts outstanding under the 2018 Credit Facility are guaranteed by Del Frisco's and certain of the subsidiaries of Del Frisco’s (collectively, the "Loan Parties"). The 2018 Credit Facility is secured by a first priority security interest in substantially all of the assets of the Loan Parties. The 2018 Credit Facility agreement contains certain representations, warranties and affirmative covenants and financial covenants, including a maximum ratio of total indebtedness to EBITDAR, as defined in the credit agreement governing the credit facility. The total indebtedness to EBITDAR

calculation is applicable only when we are over 25% drawn on the Revolver at the end of the reporting period and does not take effect until two full quarters after the Transaction Date, which is August 27, 2018, date of The Fist Amendment. As of December 25, 2018, $23.7 million under the 2018 Credit Facility Revolving Loan, was outstanding. In addition, the 2018 Credit Facility agreement 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 December 25, 2018, we had $323.8 million of outstanding borrowings on the Company’s long-term debt..
Common Stock Repurchases
On February 27, 2018, our Board approved a new $50 million share repurchase program. We have suspended repurchases under this program, however, in order to preserve our liquidity and pursue deleveraging transactions.

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Contractual Obligations

The following table summarizes our contractual obligations as of December 25, 2018:

(Amounts in thousands)	Total	2019	2020-2021	2022-2023	2024 and beyond
Operating leases	$539,589	$32,357	$70,468	$70,901	$365,863
Capital and Financing lease obligations[1]	15,513	1,714	3,670	3,701	6,428
Long term debt — including current portion[2]	336,937	3,100	6,200	6,200	321,437
Interest on long-term debt[3]	165,371	24,777	49,265	48,878	42,451
Total	$1,057,410	$61,948	$129,603	$129,680	$736,179

(1) Includes all arrangements for capital and financing leases. Includes imputed interest of $1.7 million over the life of financing lease obligations and imputed interest of $0.2 million over the life of capital lease obligation. See Note 10 Financing Lease Obligations to our consolidated financial statements included elsewhere in this Annual Report for further discussion on capital and financing lease obligations.

(2) Payments are shown at principal amount. See Note 9 Long-Term Debt to our consolidated financial statements included elsewhere in this Annual Report for further discussion on long-term debt.

(3) See Note 9 Long-Term Debt to our consolidated financial statements included elsewhere in this Annual Report for further discussion on long-term debt. Amounts shown reflect variable interest rates in effect at December 25, 2018.

Off-Balance Sheet Liabilities

As of December 25, 2018 we had no material off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K.

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. We have been impacted by recent increases in minimum wage laws, such as the 5% increase in the minimum wage on January 1, 2018 in California to $11.00. 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.

Critical Accounting Policies and Estimates

Our discussion and analysis of results of operations and financial condition are based upon our audited consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these consolidated financial statements is based on our critical accounting policies that require us to make estimates and judgments that affect the amounts reported in those consolidated financial statements. Our significant accounting policies, which may be affected by our estimates and assumptions, are more fully described in the notes to the consolidated financial statements included elsewhere in this Annual Report on Form 10-K. Critical accounting policies are those that we believe are most important to portraying our financial condition and results of operations and also require the greatest amount of subjective or complex judgments by management. Judgments or uncertainties regarding the application of these policies may result in materially different amounts being reported under different conditions or using different assumptions. We consider the following policies to be the most critical in understanding the judgments that are involved in preparing the consolidated financial statements.

Goodwill and Other Intangible Assets. We account for our goodwill and intangible assets with indefinite lives in accordance with Accounting Standards Codification, or ASC, Topic 350, Intangibles—Goodwill and Other. In accordance with ASC Topic 350, goodwill and intangible assets, primarily trade names, which have indefinite useful lives, are not being amortized. However, both goodwill and trade names are subject to annual impairment testing in accordance with ASC Topic 350. Currently, we define our reporting units as the Del Frisco’s Double Eagle, Barcelona Wine Bar and bartaco concepts.

The impairment evaluation for goodwill is conducted annually. The fair value of each reporting unit is compared with the carrying value of the reporting unit, including goodwill. The estimated fair value of the reporting unit is generally determined on the basis of discounted future cash flows and a market-based approach. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, an impairment charge is recorded for the difference.

The evaluation of the carrying amount of other intangible assets with indefinite lives is made annually by comparing the carrying amount of these assets to their estimated fair value. The estimated fair value is determined on the basis of existing market-based conditions as well as discounted future cash flows or the royalty-relief method for trade names. If the estimated fair value is less than the carrying amount, an impairment charge is recorded to reduce the asset to its estimated fair value.

The valuation approaches used to determine fair value of each reporting unit and other intangible assets are subject to key judgments and assumptions about revenue growth rates, operating margins, weighted average cost of capital and comparable company and acquisition market multiples. When developing these key judgments and assumptions, which are sensitive to change, management considers economic, operational and market conditions that could impact the fair value. The judgments and assumptions used are consistent with what management believes hypothetical market participants would use. However, estimates are inherently uncertain and represent only reasonable expectations regarding future developments.

Valuation results for our Double Eagle reporting unit showed that the fair value was significantly in excess of the carrying value, and the valuation results for our Barcelona and bartaco reporting units showed that the fair values were in excess of the carrying values by approximately 5% and 6%, respectively. Unfavorable fluctuations in the discount rate or declines in forecasted revenues and margins could result in an impairment. Any increase in discount rate, in conjunction with any decrease to the long-term projections in cash flows will negatively affect the current valuations. Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value analysis, actual results may differ, which could alter the fair value of the reporting units, and possibly result in impairment charges in future periods.

Property and Equipment. We assess recoverability of property and equipment in accordance with ASC Topic 360, Property, Plant and Equipment. Our assessment of recoverability of property and equipment is performed on a restaurant-by-restaurant basis. Certain events or changes in circumstances may indicate that the recoverability of the carrying amount of property and equipment should be assessed. These events or changes may include a significant decrease in market value, a significant change in the business climate in a particular market, or a current-period operating or cash flow loss combined with historical losses or projected future losses. If an event occurs or changes in circumstances are present, we estimate the future cash flows expected to result from the use of the asset and its eventual disposition. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount, we recognize an impairment loss. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value. Additionally, we periodically review assets for changes in circumstances which may impact their useful lives.

Our assessments of undiscounted cash flows represent our best estimate as of the time of the impairment review and are consistent with our internal planning. If different cash flows had been estimated in the current period, the property and equipment balances could have been materially impacted. Furthermore, our accounting estimates may change from period to period as conditions change, and this could materially impact our results in future periods. Factors that we must estimate when performing impairment tests include sales volume, prices, inflation, marketing expense, and capital expenses.

In fiscal 2018, we recognized impairment charges of long-lived assets of $2.1 million, of which $2.0 million was related to the Chicago Double Eagle restaurant. This impairment charge was related to our determination that the carrying amount of long-lived assets of one Double Eagle and two Grille locations exceeded their estimated undiscounted future cash flows. The estimated fair values were based on an estimated sales price of leasehold improvements, furniture and restaurant equipment for these locations.

In fiscal 2017, we recognized impairment charges of long-lived assets of $22.9 million. This impairment charge was related to our determination that the carrying amount of long-lived assets at one Double Eagle and four Grille locations exceeded their estimated undiscounted future cash flows. The estimated fair values were based on an estimated sales price of leasehold improvements, furniture and restaurant equipment for these locations.

In fiscal 2016, we did not recognize impairment charges of long-lived assets.

Leases. We currently lease all of our restaurant locations. We evaluate each lease to determine its appropriate classification as an operating or capital lease for financial reporting purposes. The majority of our leases are classified as operating leases. We record the minimum lease payments for our operating leases on a straight-line basis over the lease term, including option periods which in the judgment of management are reasonably assured of renewal. The lease term commences on the date that the lessee obtains control of the property, which is normally when the property is ready for tenant improvements. Contingent rent expense is recognized as incurred and is usually based on either a percentage of restaurant sales or as a percentage of restaurant sales in excess of a defined amount. Our lease costs will change based on the lease terms of our lease renewals as well as leases that we enter into with respect to our new restaurants.

Leasehold improvements financed by the landlord through tenant improvement allowances are capitalized as leasehold improvements with the tenant improvement allowances recorded as deferred lease incentives. Deferred lease incentives are amortized on a straight-line basis over the lease term, including option periods which in the judgment of management are reasonably assured of renewal (same term that is used for related leasehold improvements) and are recorded as a reduction of occupancy expense. As part of the initial lease terms, we negotiate with our landlords to secure these tenant improvement allowances. There is no guarantee that we will receive tenant improvement allowances for any of our future locations, which would result in additional occupancy expenses.

Business Combination. On June 27, 2018, we completed the acquisition of all outstanding interests in Barteca, which was accounted for as business combinations using the acquisition method of accounting. See Note 3 Acquisitions to the consolidated financial statements.

In accordance with the acquisition method of accounting for business combinations, we allocated the purchase price of acquired businesses to the tangible and intangible assets acquired and liabilities assumed based on estimated fair values. Our purchase price allocation methodology contains uncertainties because it requires us to make certain assumptions and to apply judgment to estimate the fair value of acquired assets and liabilities, including, but not limited to, property and equipment, intangible assets, and goodwill. We estimate the fair value of assets and liabilities based upon widely accepted valuation techniques, including discounted cash flows and market multiple analyses depending on the nature of the assets acquired or liabilities assumed. The process for estimating fair values in many cases requires the use of significant estimates, assumptions and judgments, including determining the timing and estimates of future cash flows and developing appropriate discount rates. Unanticipated events or circumstances may occur which could affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies. We expect to finalize the purchase price allocation as soon as practicable within the measurement period, but not later than one year following the acquisition date. Any adjustments to fair value subsequent to the measurement period are reflected in the consolidated statements of net income and comprehensive income.

The purchase accounting for the Barteca Acquisition is incomplete and our estimates and assumptions are subject to change during the measurement period. The primary areas of the purchase price allocations that are not yet finalized relate to deferred taxes, which will have a corresponding change to goodwill.

Income Taxes. We have accounted for, and currently account for, income taxes in accordance with ASC Topic 740, Accounting for Income Taxes. This statement requires an asset and liability approach for financial accounting and reporting of income taxes. Under ASC Topic 740, income taxes are accounted for based upon the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry-forwards. Income taxes are one of our critical accounting policies and estimates and therefore involve a certain degree of judgment. We use an estimate of our annual effective tax rate at each interim period based on the facts and circumstances available at that time while the actual effective tax rate is calculated at year-end. See Note 2 Summary of Significant Accounting Policies and Note 7 Income Taxes to the consolidated financial statements.

The realization of tax benefits of deductible temporary differences will depend on whether we will have sufficient taxable income of an appropriate character to allow for utilization of the deductible amounts.

We record a liability for unrecognized tax benefits resulting from tax positions taken, or expected to be taken, in an income tax return. We recognize any interest and penalties related to unrecognized tax benefits in income tax expense. Significant judgment is required in assessing, among other things, the timing and amounts of deductible and taxable items. Tax reserves are evaluated and adjusted as appropriate, while taking into account the progress of audits of various taxing jurisdictions.

The Company assesses the available positive and negative evidence at each balance sheet date to determine whether sufficient future taxable income will be generated to permit the use of existing deferred tax assets. The purpose of this analysis is to assess whether it is more likely than not that some or all of our deferred tax assets will not be realized. Significant judgment is required in estimating valuation allowances for deferred tax assets and in making this determination, we consider all available positive and negative evidence and make certain assumptions. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in the applicable carryback or carryforward periods. To the extent we generate sufficient taxable income in the future to fully utilize the tax benefits of the net deferred tax assets on which a valuation allowance was recorded; our effective tax rate may decrease as the valuation allowance is reversed. During fiscal 2018, the Company entered a three year cumulative loss position and established a valuation allowance against deferred tax assets, as of December 25, 2018 valuation allowance was $17.4 million. See Note 7 Income Taxes to our consolidated financial statements.

Recent Events

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Although on February 27, 2018, our Board approved a new $50 million share repurchase program, we have suspended repurchases under this program in order to preserve our liquidity and pursue deleveraging transactions.
On June 27, 2018 (“Acquisition Date”), we completed the acquisition of all outstanding interests in Barteca Holdings, LLC ("Barteca Acquisition"), a Delaware limited liability company, and its subsidiaries (“Barteca”) for total cash consideration of $331.2 million, which represents a purchase price of $325 million plus customary adjustments including payments for cash remaining in the business.
In connection with the completion of the Barteca Acquisition, we entered into a new credit agreement that provides for (i) senior secured term loans in an aggregate principal amount of $390.0 million (“Term Loan B”) and (ii) senior secured revolving credit commitments in an aggregate principal amount of $50.0 million (“Revolving Loan,” and, collectively with the term loans, the “2018 Credit Facility”). See Note 9, Long-Term Debt in the notes to our consolidated financial statements for information regarding our credit facility.
On August 1, 2018, we entered into an underwriting agreement with certain underwriters with respect to (i) the sale by the Company of 11,250,000 shares of the Company’s common stock, par value $0.001 per share, to the underwriters and (ii) the grant by the Company to the underwriters of an option (the “Option”) to purchase up to 1,687,500 additional shares of the Company’s common stock (together, the “Shares”). The sale of the Shares, including the exercise in full of the Option, closed on August 6, 2018. The total proceeds of $97.8 million from the public offering of common stock were used to repay a portion of Term Loan B. See Note 9, Long-Term Debt in the notes to our consolidated financial statements.
On August 27, 2018 we amended (the “First Amendment”) Term Loan B (“Amended Term Loan B”). The First Amendment amends the 2018 Credit Facility, to, among other things, provide the Company with additional term loans (“Additional Term Loans”) in an aggregate principal amount of $18.0 million. The First Amendment also amended the 2018 Credit Facility to increase the interest rate applicable to the Additional Term Loans and the existing term loans outstanding under the 2018 Credit Facility to, at our option, a rate per annum equal to either a LIBOR or a base rate, plus an applicable margin, which is equal to 6.00% for LIBOR rate loans and 5.00% for base rate loans. See Note 9, Long-Term Debt in the notes to our consolidated financial statements for information regarding our amended credit facility.
On September 21, 2018, we sold all of the outstanding equity interests in our Sullivan’s Steakhouse business (“Sullivan’s") to Sullivan’s Holding LLC, a Delaware limited liability company and affiliate of Romano’s Macaroni Grill, for the total gross proceeds of approximately $32 million, subject to customary adjustments for inventory and cash. See Note 4, Dispositions in the notes to our consolidated financial statements for information regarding discontinued operations.
On February 26, 2019, the Company entered into the Joinder Agreement with JPMorgan Chase Bank, N.A., as the incremental term lender and JPMorgan Chase Bank, N.A. as the administrative agent. The Joinder Agreement provided the Company with incremental term loan commitments in a principal amount equal to $25 million. The Company drew the full amount of the incremental term loans on the date of the Joinder Agreement and received net proceeds of approximately $23.1 million. The Company used the net proceeds of the incremental term loans to repay a portion of the outstanding amounts under its revolving credit facility. The transaction extends the maturity of a portion of the Company’s outstanding indebtedness and since the repayment does not reduce the commitments under the revolving credit facility, the transaction expanded the Company’s sources of liquidity without increasing leverage at this time.
Recently Adopted Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU 2014-09”) – Revenue from Contracts with Customers, and issued subsequent amendments to the initial guidance to provide additional clarification on specific topics (“Topic 606”). Topic 606 provides a comprehensive revenue recognition model requiring companies to recognize revenue for the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from

customer contracts. The Company adopted Topic 606 as of December 27, 2017 by applying the cumulative effect transition method. Based on our evaluation of our revenue streams, the Company has determined that there was not a material impact as of the date of adoption between the new revenue standard and how we previously recognized revenue, and therefore the adoption did not have a material effect on our consolidated financial statements. The primary item affected by the adoption of Topic 606 was the deferred revenue from our loyalty program. While we do not anticipate changes to this revenue stream to be material, as stated above, we do expect to recognize income from this revenue stream earlier than it was previously recognized under the prior guidance, by bifurcating the performance obligations associated with our loyalty program. As a result of adopting Topic 606, the cumulative effect to our retained earnings was approximately $0.3 million, net of tax effect. For other revenue streams, there was no material change in the timing of revenue recognition as our accounting policies under the prior guidance was materially consistent with Topic 606.

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In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) ("ASU 2016-15") – Classification of Certain Cash Receipts and Cash Payments. This ASU is intended to clarify the presentation of cash receipts and payments in specific situations. The amendments in this update were effective for financial statements issued for annual periods that begun after December 15, 2017, including interim periods within those annual periods, and early application was permitted. An entity should apply ASU 2016-15 using a retrospective transition method to each period presented. We adopted ASU 2016-15 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) ("ASU 2016-18") – Restricted Cash, which outlines that a statement of cash flows explains the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 was effective for public business entities for annual periods, including interim periods within those annual periods, that began after December 15, 2017, and early application was permitted. An entity should apply ASU 2016-18 using a retrospective transition method to each period presented. We adopted ASU 2016-18 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718) ("ASU 2017-09") – Scope of Modification Accounting, which provides clarity and reduces complexity when an entity has changes to the terms or conditions of a share-based payment award, and when an entity should apply modification accounting. The amendments in this update are effective for financial statements issued for annual periods that began after December 15, 2017, including interim periods within those annual periods, and early adoption was permitted for interim or annual periods. The amendments in ASU 2017-09 should be applied prospectively to awards modified on or after the adoption date. We adopted ASU 2017-09 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) (“ASU 2017-12”) – Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 is intended to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the application of hedge accounting by preparers. We early adopted ASU 2017-12 on June 27, 2018 (Adoption Date). ASU 2017-12 requires that certain provisions be applied on a modified retrospective basis upon adoption, which results in a cumulative catch-up adjustment to the opening balance of accumulated other comprehensive income with a corresponding adjustment to retained earnings as of the beginning of the fiscal year of adoption, which is January 1, 2018 (Application Date). Given that no outstanding hedge existed at the Application Date, no provisions elected by us will result in a cumulative effect adjustment to retained earnings. Consequently, the adoption did not have a material impact on our Consolidated Financial Statements and related disclosures. See Note 8 Derivative Instruments to the consolidated financial statements, for disclosures on our derivative instrument and hedging activities.

Recently Issued Standards

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). which requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance (formerly capital) or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require all leases with an initial term greater than one year to be recognized on the balance sheet as a right-of-use ("ROU") asset and a lease liability. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is allowed. The standard provides for a transition method using a modified retrospective approach, which includes a number of optional practical expedients. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which allows lessees to recognize and measure leases at the beginning of the period of adoption without modifying the comparative period financial statements.

We will adopt ASU 2016-02 in the first quarter of 2019 utilizing the modified retrospective transition method through a cumulative-effect adjustment at the beginning of the first quarter of 2019. We will elect the package of practical expedients permitted under the transition guidance, which allows us to carryforward our historical lease classification, our assessment on whether a contract is or contains a lease, and our initial direct costs for any leases that exist prior to adoption of the new standard. We will make an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet. The Company will recognize those lease payments in the Consolidated Statements of Earnings on a straight-line basis over the lease term. Currently we expect the most significant impact will be the recognition of right-of-use assets and lease liabilities for operating leases with original terms of over 12 months where the Company is the lessee. We estimate adoption of the new lease standard will result in recognition of right-of-use assets of between $149.5 million and $169.5 million, and lease liabilities of between $201.4 million and $221.4 million, as of December 26, 2018. We also expect to record a cumulative effect adjustment to increase retained earnings of between $5.7 million and $7.7 million, due to current build-to-suit leases and prior deferred gains on sale leaseback transactions.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40) ("ASU 2018-15") - Customer's Accounting for Implementation Costs incurred in a Cloud Computing Arrangement that is a Service Contract. ASU 2018-15 reduces the complexity of accounting for costs of implementing a cloud computing service arrangement and aligns the following requirements to capitalize implementation costs: (i) those incurred in a hosting arrangement that is a service contract, and (ii) those incurred to develop or obtain internal-use software, including hosting arrangements that include an internal software license. This amended guidance is first effective for our fiscal year beginning on December 15, 2019 with early adoption permitted. The guidance may be adopted either using the prospective or retrospective approach. We are currently evaluating the impact of this new guidance on our financial position and results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The inherent risk in market risk sensitive instruments and positions primarily relates to potential losses arising from adverse changes in interest rates.

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 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. At December 25, 2018, we had $323.8 million of outstanding borrowings on the Company’s long-term debt. Holding other variables constant, 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 of outstanding debt under our credit facility, which would have been approximately $3.2 million less the impact of the hedge over the course of a full fiscal year. See Note 8 Derivative Financial Instruments to our consolidated financial statements included elsewhere in this Annual Report for disclosures on our derivative instrument and hedging activities.

Commodity Price Risk

Although we currently do not engage in futures contracts with respect to potential price fluctuations, we opportunistically manage cost using a combination of short and long term fixed price agreements and market driven formulaic based contract processes. These practices help stabilize our food costs during times of fluctuating prices, although there can be no assurances that this will occur. However, from time to time we are exposed to market price fluctuations in beef, seafood, produce due in part to weather and other market conditions outside of our control. Given the historical volatility of beef, seafood, and produce 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.

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements and notes thereto and the reports of KPMG LLP, our independent registered public accounting firm, are included elsewhere in this Annual Report on Form 10-K, and are incorporated herein by reference.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 25, 2018.

The design of any system of disclosure controls and procedures 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.

Management’s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the company, (2) provide reasonable assurance that transactions are recorded as necessary to permit

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preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company, and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect all misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an assessment of our internal control over financial reporting as of December 25, 2018, based on the criteria established in Internal Control - Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this evaluation, our management concluded our internal control over financial reporting was effective as of December 25, 2018.

On June 27, 2018, we completed the acquisition of Barteca. As permitted by the Securities and Exchange Commission, management has elected to exclude the Barteca business from its assessment of internal controls over financial reporting as of December 25, 2018. Barteca’s operations are included in the Company’s 2018 consolidated financial statements for the period from June 27, 2018 to December 25, 2018 and represented 53.4% of the Company’s consolidated total assets as of December 25, 2018 and 19.6% of the Company’s consolidated total revenues for the year ended December 25, 2018.

Our independent registered public accounting firm, KPMG LLP, has audited our internal control over financial reporting. KPMG LLP’s report on our internal control over financial reporting appears on page F-3 of this Annual Report on Form 10-K.

Remediation of Previously Identified Material Weakness in Internal Control over Financial Reporting

During 2018, management actively engaged in remediation efforts to address the material weakness in our internal control over financial reporting previously disclosed in Item 9A in our Annual Report on Form 10-K for the fiscal year ended December 26, 2017. At the direction of management, the following actions were taken:

- we formalized our processes and internal control documentation for non-routine transactions and other complex transactions that occurred during the year;
- we engaged a national recognized accounting and advisory firm to supplement our internal resources related to preparation and review of the accounting for such transactions; and
- we strengthened our supervisory reviews by management to address the non-routine transactions and other complex accounting transactions that occurred during the year.

The Company is committed to maintaining a strong internal control environment and management believes that the implemented measures described above effectively remediated the material weakness.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting 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.

Item 9B. Other Information

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item regarding our executive officers is provided in "Item 1. Business - Executive Officers and Key Employees" of this Annual Report. All other information required by this item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended December 25, 2018.

Item 11. Executive Compensation

The information required under this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended December 25, 2018.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

All information, except the equity compensation plans table below, required under this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended December 25, 2018.

Equity Compensation Plans

The following table sets forth information as of December 25, 2018, with respect to our equity compensation plans under which our equity securities are authorized for issuance:

Plan Category	Number of securities to be issued upon exercise of outstanding options and rights	Weighted average exercise price of outstanding options and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	1,780,252	$ 13.84	148,626
Equity compensation plans not approved by security holders	—	—	—
Total	1,780,252	$ 13.84	148,626

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required under this Item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended December 25, 2018.

Item 14. Principal Accountant Fees and Services

The information required under this item is incorporated herein by reference to our definitive proxy statement to be filed with the SEC no later than 120 days after the close of our fiscal year ended December 25, 2018.

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PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Financial Statements and Financial Statement Schedules

See Index to Consolidated Financial Statements appearing on page F-1. All schedules have been omitted because they are not required or applicable or the information is included in the consolidated financial statements or notes thereto.

(b) Exhibits

See Exhibit Index appearing on the next page for a list of exhibits filed with or incorporated by reference as part of this Annual Report on Form 10-K.

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Exhibit Index

Exhibit No.	Description
2.1	Purchase Agreement and Plan of Merger, dated as of May 6, 2018, by and between Del Frisco's Restaurant Group, Inc., Bentley Merger Sub, LLC, Barteca Holdings, LLC, RCP Barteca Corp., General Atlantic (BT) Blocker, LLC, the Blocker Sellers and The Sellers' Representative, filed on May 6, 2018 as Exhibit 10.1 to the Registrant's Form 8-K (File No. 333-179141) and incorporated herein by reference.
2.2	Purchase Agreement, by and between Del Frisco's Restaurant Group, Inc. and Sullivan's Holdings, LLC, dated as of September 17, 2018, filed on September 18, 2018 as Exhibit 2.1 to the Registrant's Form 8-K (File No. 333-179141) and incorporated herein by reference.
2.3	Amendment to Purchase Agreement, by and between Del Frisco's Restaurant Group, Inc. and Sullivan's Holdings, LLC, dated as of September 17, 2018, filed on September 19, 2018 as Exhibit 2.1 to the Registrant's Current Report on Form 8-K/A (File No. 333-179141) and incorporated herein by reference.
3.1	Certificate of Incorporation of Del Frisco's Restaurant Group, Inc. (Incorporated by reference to Exhibit 3.1 to Amendment No. 6 to our Registration Statement on Form S-1 (File No. 333-179141) filed July 24, 2012).
3.2	Bylaws of Del Frisco's Restaurant Group, Inc. (Incorporated by reference to Exhibit 3.2 to Amendment No. 3 to our Registration Statement on Form S-1 (File No. 333-179141) filed June 11, 2012).
4.1	Rights Agreement, dated as of December 5, 2018, between Del Frisco's Restaurant Group, Inc. and American Stock Transfer & Trust Company, LLC, as rights agent (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on December 6, 2018).
4.2	Amendment to Rights Agreement, dated as of February 1, 2019, between Del Frisco's Restaurant Group, Inc. and American Stock Transfer & Trust Company, LLC, as rights agent (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed on February 4, 2019).
4.3	Certificate of Designations of Series B Preferred Stock of Del Frisco's Restaurant Group, Inc., as filed with the Secretary of State of the State of Delaware on December 6, 2018 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 6, 2018).
4.4	Certificate of Elimination of Series B Preferred Stock of Del Frisco's Restaurant Group, Inc., as filed with the Secretary of State of the State of Delaware on February 1, 2019 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on February 4, 2019).
10.1	Loan Agreement, dated as of October 15, 2012, by and among Del Frisco's Restaurant Group, Inc., certain subsidiaries as guarantors, and JP Morgan Chase Bank N.A. filed on March 27, 2018 as Exhibit 10.1 to the Registrant's Annual Report on Form 10-K for the year ended December 26, 2017 and incorporated herein by reference.

10.2	#	Del Frisco’s Restaurant Group 2012 Long-Term Incentive Plan, filed on July 24, 2012 as Exhibit 10.25 to Amendment No. 6 to the Registrant’s Registration Statement on Form S-1 (File No. 333-179141) and incorporated herein by reference.

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10.3	#	Del Frisco's Restaurant Group Nonqualified Deferred Compensation Plan, effective as Amended and Restated December 1, 2007, filed on January 24, 2012 as Exhibit 10.4 to the Registrant's Registration Statement on Form S-1 (File No. 333-179141) and incorporated herein by reference.
10.4	#	First Amendment to Del Frisco's Restaurant Group Nonqualified Deferred Compensation Plan, dated as of December 31, 2009, filed on January 24, 2012 as Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (File No. 333-179141) and incorporated herein by reference.
10.5	#	Employment Agreement, dated November 21, 2016, between Norman Abdallah and Del Frisco's Restaurant Group, Inc., filed on February 28, 2017 as Exhibit 10.7 to the Registrant's Annual Report on Form 10-K for the year ended December 27, 2016 and incorporated herein by reference.
10.6	#	Employment Agreement, effective January 4, 2012, between Thomas G. Dritsas and Center Cut Hospitality, Inc., filed on January 24, 2012 as Exhibit 10.13 to the Registrant's Registration Statement on Form S-1 (File No. 333-179141) and incorporated herein by reference.
10.7	#	Employment Agreement, effective January 25, 2012, between William S. Martens, III and Center Cut Hospitality, Inc., filed on April 16, 2012 as Exhibit 10.26 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (File No. 333-179141) and incorporated herein by reference.
10.8	#	Employment Agreement, dated October 4, 2017, between William S. Martens, III and DFRG Management, LLC. filed on May 5, 2018 as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 27, 2018 and incorporated herein by reference.
10.9	#	Employment Agreement, dated May 5, 2017, between Neil Thomson and Del Frisco's Restaurant Group, Inc., filed on May 8, 2017 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference.
10.10	#	Employment Agreement, dated January 9, 2017, between Scott Smith and Del Frisco's Restaurant Group, Inc., filed on May 5, 2018 as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 27, 2018 and incorporated herein by reference.
10.11	#	Separation Agreement and General Release, dated May 5, 2017, between Thomas J. Pennison, Jr. and Center Cut Hospitality, Inc., filed on May 5, 2018 as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 27, 2018 and incorporated herein by reference.
10.12	#	Separation Agreement and General Release, by and between Del Frisco's Restaurant Group, Inc., DFRG Management, LLC and Ray Risley, dated August 20, 2018, filed on September 26, 2018 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference.
10.13	#	Form of Indemnification Agreement for officers and directors, filed on June 11, 2012 as Exhibit 10.3 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-179141) and incorporated herein by reference.
10.14		First Amendment to Loan Agreement, dated as of October 8, 2013, among the Company and JPMorgan Chase Bank, N.A. filed on October 9, 2013 as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 3, 2013 and incorporated herein by reference.

10.15	Second Amendment to Loan Agreement, dated as of June 30, 2015, among the Company and JPMorgan Chase Bank, N.A. filed on July 2, 2015 as Exhibit 10.1 to the Registrant’s Current Report on Form 8-K and incorporated herein by reference.

10.16	Third Amendment to Loan Agreement, dated as of December 21, 2016, among the Company and JPMorgan Chase Bank, N.A. filed on December 22, 2016 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference.
10.17	Fourth Amendment to Loan Agreement, dated as of April 21, 2017, among the Company and JPMorgan Chase Bank, N.A. filed on April 26, 2017 as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 21, 2017 and incorporated herein by reference.
10.18	Fifth Amendment to Loan Agreement, dated as of May 24, 2017, among the Company and JPMorgan Chase Bank, N.A. filed on May 26, 2017 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference.
10.19	Sixth Amendment to Loan Agreement, dated as of October 20, 2017, among the Company and JPMorgan Chase Bank, N.A. filed on October 25, 2017 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference.
10.20	Credit Agreement, dated as of June 27, 2018, among Del Frisco's Restaurant Group, Inc., JPMorgan Chase Bank, N.A., as administrative agent, the other agents and arrangers party thereto and the several lenders party thereto, filed on June 28, 2018 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference.
10.21	Joinder Agreement, dated as of February 26, 2019, by and among Del Frisco's Restaurant Group, Inc., as the borrower, JPMorgan Chase Bank, N.A., as the incremental term loan lender and JPMorgan Chase Bank, N.A., as the administrative agent, to the Credit Agreement, dated as of June 27, 2018 (as amended by that certain First Amendment, dated as of August 27, 2018), by and among Del Frisco's Restaurant Group, Inc., as the borrower, JPMorgan Chase Bank, N.A., as the administrative agent and the other lenders from time to time party thereto filed on February 27, 2019 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference.
10.22	Cooperation Agreement, dated February 1, 2019, by and among Del Frisco's Restaurant Group, Inc. and Engaged Capital, LLC and certain of its affiliates filed on February 4, 2019 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference.
10.23#	Form of Non-Qualified Stock Option Award Agreement under the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan filed on February 28, 2017 as Exhibit 10.14 to the Registrant's Annual Report on Form 10-K for the year ended December 27, 2016 and incorporated herein by reference.
10.24#	Form of Incentive Stock Option Award Agreement under the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan filed on February 28, 2017 as Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 27, 2016 and incorporated herein by reference.
10.25#	Form of Restricted Stock Award Agreement under the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan filed on February 28, 2017 as Exhibit 10.16 to the Registrant's Annual Report on Form 10-K for the year ended December 27, 2016 and incorporated herein by reference.
10.26#	

	Form of Performance-Based Restricted Stock Unit Award Agreement under the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan filed on February 28, 2017 as Exhibit 10.17 to the Registrant's Annual Report on Form 10-K for the year ended December 27, 2016 and incorporated herein by reference.	
21.1	List of Subsidiaries of the Registrant.	*
23.1	Consent of KPMG LLP.	*

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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 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.	**

* Filed herewith.
** Furnished herewith.
\# Denotes management compensatory plan or arrangement.

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Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused report to be signed on its behalf by the undersigned, thereunto duly authorized.

Del Frisco’s Restaurant Group, Inc.

By: /s/ Neil H. Thomson
Name: Neil H. Thomson
Title: Chief Financial Officer

Date: March 11, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

/s/ Norman J. Abdallah Norman J. Abdallah	Chief Executive Officer and Director (Principal Executive Officer)	March 11, 2019
/s/ Neil H. Thomson Neil H. Thomson	Chief Financial Officer (Principal Financial and Accounting Officer)	March 11, 2019
/s/ Ian R. Carter Ian R. Carter	Chairman of the Board, Director	March 11, 2019
/s/ David B. Barr David B. Barr	Director	March 11, 2019
/s/ Pauline J. Brown Pauline J. Brown	Director	March 11, 2019
/s/ Richard L. Davis Richard L. Davis	Director	March 11, 2019
/s/ William Lamar, Jr. William Lamar, Jr.	Director	March 11, 2019
/s/ Joseph E. Reece Joseph E. Reece	Director	March 11, 2019

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors

Del Frisco's Restaurant Group, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Del Frisco's Restaurant Group, Inc. and subsidiaries (the Company) as of December 25, 2018 and December 26, 2017, the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 25, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 25, 2018 and December 26, 2017, and the results of its operations and its cash flows for each of the years in the three-year period ended December 25, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 25, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 11, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2014.

Dallas, Texas

March 11, 2019

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Stockholders and Board of Directors
Del Frisco’s Restaurant Group, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Del Frisco’s Restaurant Group, Inc. and subsidiaries’ (the Company) internal control over financial reporting as of December 25, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 25, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 25, 2018 and December 26, 2017, and the related consolidated statements of operations, comprehensive (loss) income, changes in stockholders’ equity, and cash flows for each of the years in the three-year period ended December 25, 2018, and related notes (collectively, the consolidated financial statements), and our report dated March 11, 2019 expressed an unqualified opinion on those consolidated financial statements.

The Company acquired Barteca Holdings, LLC during 2018, and management excluded from its assessment of the effectiveness of the Company’s internal control over financial reporting as of December 25, 2018, Barteca Holdings, LLC’s internal control over financial reporting associated with total assets of $387.9 million and total revenues of $74.2 million included in the consolidated financial statements of the Company as of and for the year ended December 25, 2018. Our audit of internal control over financial reporting of the Company also excluded an evaluation of the internal control over financial reporting of Barteca Holdings, LLC.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ KPMG LLP

Dallas, Texas
March 11, 2019

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DEL FRISCO’S RESTAURANT GROUP, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

(Amounts in thousands, except share data)	As of December 25, 2018	December 26, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$8,535	$ 4,553
Inventory	22,461	15,539
Income taxes receivable	2,861	3,369
Lease incentives receivable	6,775	1,739
Prepaid expenses	8,284	5,383
Other current assets	9,043	3,392
Current assets held for sale	—	3,028
Total current assets	57,959	37,003
Property and equipment:		
Buildings and improvements	17,500	—
Leasehold improvements	251,417	157,306
Furniture, fixtures, and equipment	85,164	61,500
Construction in progress	24,906	10,076
Property and equipment, gross	378,987	228,882
Less accumulated depreciation	(91,184)	(75,566)
Property and equipment, net	287,803	153,316
Deferred compensation plan investments	13,556	14,644
Goodwill	156,131	43,928
Intangible assets, net	206,573	20,284
Deferred income taxes	—	1,683
Other assets	4,010	543
Noncurrent assets held for sale	—	57,068
Total assets	$726,032	$ 328,469
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	43,527	13,940
Sales tax payable	3,215	3,314
Accrued payroll	11,258	7,103
Current portion of deferred rent obligations	4,193	4,177
Deferred revenue	16,624	17,646
Other current liabilities	6,026	5,076
Current portion of capital and financing lease obligations	1,714	—
Current portion of long-term debt	3,100	—
Current liabilities held for sale	—	575
Total current liabilities	89,657	51,831
Noncurrent liabilities:		
Long-term debt	320,736	24,477
Deferred compensation plan liabilities	8,059	11,326
Obligations under capital and financing lease, net	11,828	—

Deferred rent obligations	56,442	41,166
Deferred income taxes, net	23,900	—
Other noncurrent liabilities	1,828	1,935
Noncurrent liabilities held for sale	—	8,647
Total liabilities	512,450	139,382
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, $0.001 par value, 10,000,000 shares authorized, no shares outstanding at December 25, 2018 and December 26, 2017, respectively.	—	—
Common stock, $0.001 par value, 190,000,000 shares authorized, 37,444,400 issued and 33,321,795 outstanding and 24,420,490 issued and 20,309,341 shares outstanding at December 25, 2018 and December 26, 2017, respectively.	37	24
Treasury stock at cost: 4,122,605 shares and 4,111,149 shares at December 25, 2018 and December 26, 2017, respectively.	(67,823)	(67,823)
Additional paid in capital	248,618	147,503
Retained earnings	33,379	109,383
Accumulated other comprehensive loss, net of tax	(629)	—
Total stockholders' equity	213,582	189,087
Total liabilities and stockholders' equity	$726,032	$ 328,469

See accompanying notes to consolidated financial statements.

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DEL FRISCO’S RESTAURANT GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

(Amounts in thousands, except per share data)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Revenues	$378,216	$ 293,827	$ 273,884
Costs and expenses:			
Costs of sales	105,985	83,617	76,319
Restaurant operating expenses (excluding depreciation and amortization shown separately below)	189,890	141,520	129,018
Marketing and advertising costs	8,255	6,318	5,789
Pre-opening costs	9,351	2,182	3,446
General and administrative costs	39,650	26,891	23,315
Donations	335	836	—
Consulting project costs	6,420	2,786	—
Acquisition costs	11,123	—	—
Reorganization severance costs	2,202	1,072	793
Lease termination and closing costs	3,779	(2)	142
Impairment charges	2,115	22,930	—
Depreciation and amortization	21,713	17,595	14,903
Total costs and expenses	400,818	305,745	253,725
Insurance settlements	72	—	—
Operating (loss) income	(22,530)	(11,918)	20,159
Other income (expense), net:			
Interest, net of capitalized interest	(32,179)	(783)	(70)
Other	(810)	(1,435)	(433)
(Loss) income before income taxes	(55,519)	(14,136)	19,656
Income tax (benefit) expense	(5,653)	(13,317)	5,321
(Loss) income from continuing operations	(49,866)	(819)	14,335
(Loss) income from discontinued operations, net of tax	(26,437)	(10,638)	3,431
Net (loss) income	$(76,303)	$ (11,457)	$ 17,766
Net income (loss) per average common share outstanding—basic			
(Loss) income from continuing operations	$(1.96)	$ (0.04)	$ 0.61
(Loss) income from discontinued operations	(1.04)	(0.49)	0.15
Net (loss) income	$(3.00)	$ (0.53)	$ 0.76
Net income (loss) per average common share outstanding—diluted			
(Loss) income from continuing operations	$(1.96)	$ (0.04)	$ 0.61
(Loss) income from discontinued operations	(1.04)	(0.49)	0.15
Net (loss) income	$(3.00)	$ (0.53)	$ 0.76
Weighted-average number of common shares outstanding:			
Basic:	25,412	21,570	23,322
Diluted:	25,412	21,570	23,435

See accompanying notes to consolidated financial statements.

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DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive (Loss) Income

(Amounts in thousands)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Net (loss) income	$(76,303)	$ (11,457)	$ 17,766
Other comprehensive (loss) income, net of tax:			
Change in unrealized gain (loss) on cash flow hedge[1]	(629)	—	—
Other comprehensive income (loss), net of tax	(629)	—	—
Comprehensive (loss) income	$(76,932)	$ (11,457)	$ 17,766

(1) Change in unrealized gain (loss) on cash flow hedges is presented net of tax, which was zero for the fiscal year ended December 25, 2018. There was no cash flow hedging activity for the fiscal year ended December 26, 2017 and December 27, 2016, respectively.

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DEL FRISCO’S RESTAURANT GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Changes in Stockholders’ Equity

(Amounts in thousands, except share data)	Common Stock Shares	Par Value	Additional Paid In Capital	Treasury Stock	Retained Earnings	Accumulated other Comprehensive Income (Loss)	Total
Balance at December 29, 2015	23,313,169	$ 24	$ 137,601	$ (13,000)	$ 103,074	$ —	$ 227,699
Net income	—	—	—	—	17,766	—	17,766
Share-based compensation costs	—	—	2,602	—	—	—	2,602
Stock option exercises, including tax effects	228,800	—	3,207	—	—	—	3,207
Shares issued under stock compensation plan, net of shares withheld for tax effects	33,492	—	(85)	—	—	—	(85)
Treasury stock purchases, net of tax effects related to vested restricted stock and restricted stock units	(303,187)	—	—	(4,823)	—	—	(4,823)
Balance at December 27, 2016	23,272,274	$ 24	$ 143,325	$ (17,823)	$ 120,840	$ —	$ 246,366
Net loss	—	—	—	—	(11,457)	—	(11,457)
Share-based compensation costs	—	—	2,819	—	—	—	2,819
Stock option exercises, including tax effects	136,500	—	1,542	—	—	—	1,542
Shares issued under stock compensation plan, net of shares withheld for tax effects	38,743	—	(183)	—	—	—	(183)
Treasury stock purchases, net of tax effects related to vested restricted stock and restricted stock units	(3,138,176)	—	—	(50,000)	—	—	(50,000)
Balance at December 26, 2017	20,309,341	$ 24	$ 147,503	$ (67,823)	$ 109,383	$ —	$ 189,087
Cumulative effect adjustment (Note 2)	—	—	—	—	299	—	299
Balance at December 27, 2017	20,309,341	24	147,503	(67,823)	109,682	—	189,386
Net loss	—	—	—	—	(76,303)	—	(76,303)
Other comprehensive loss, net of tax	—	—	—	—	—	(629)	(629)
Share-based compensation costs	—	—	4,045	—	—	—	4,045
Issuance of common stock through public offering, net of fees and issuance costs	12,937,500	13	97,198	—	—	—	97,211
Stock option exercises, including tax effects	4,000	—	52	—	—	—	52
Shares issued under stock compensation plan, net of shares withheld for tax effects	70,954	—	(180)	—	—	—	(180)
Balance at December 25, 2018	33,321,795	$ 37	$ 248,618	$ (67,823)	$ 33,379	$ (629)	$ 213,582

See accompanying notes to consolidated financial statements.

DEL FRISCO’S RESTAURANT GROUP, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows

(Amounts in thousands)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Cash flows from operating activities:			
Net (loss) income	$(76,303)	$ (11,457)	$ 17,766
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	24,682	23,399	18,865
Loss on disposal of restaurant property	505	1,413	429
Loss on Sullivan's sale	23,620	—	—
Loss on extinguishment of debt	18,266	—	—
Amortization of debt issuance costs	742	3	2
Share based compensation	4,045	2,819	2,666
Impairment charges	2,199	37,053	598
Deferred income taxes	(4,163)	(14,951)	1,575
Amortization of deferred lease incentives	(872)	(1,055)	(1,140)
Changes in operating assets and liabilities:			
Inventory	(4,605)	(1,629)	908
Lease incentives receivable	10,845	8,065	2,692
Prepaid expenses and other assets	(4,227)	(3,757)	(1,497)
Insurance settlement	72	1,153	—
Accounts payable	19,383	(1,808)	(2,666)
Income taxes	508	230	1,888
Deferred rent obligations	2,158	2,624	2,307
Deferred revenue	(1,696)	(1,089)	1,100
Other liabilities	(3,991)	(2,989)	4,322
Net cash provided by operating activities	11,168	38,024	49,815
Cash flows from investing activities:			
Proceeds from sale of property and equipment	—	14,692	3,078
Purchase of trade name	—	—	(546)
Insurance settlement for property and equipment	—	1,073	—
Purchases of property and equipment	(85,838)	(39,426)	(36,698)
Other investing activities	(1,348)	(268)	(2)
Purchase of Barteca, net of cash acquired	(325,193)	—	—
Proceeds from Sullivan's sale, net	29,894	—	—
Net cash used in investing activities	(382,485)	(23,929)	(34,168)
Cash flows from financing activities:			
Payments on borrowings	(176,741)	(37,250)	(16,500)
Proceeds from borrowings	475,713	58,750	12,000
Payment of debt issuance costs	(21,460)	—	—
Principal payments of capital and financing lease obligations	(138)	—	—
Proceeds from sale of common stock, net of issuance costs	97,211	—	—
Purchases of treasury stock	—	(50,000)	(4,823)
Proceeds from loan against deferred compensation investments	2,146	3,546	—
Payments on loan against deferred compensation investments	(1,304)	(569)	—

Cash tax payment for share-based awards	(180)	(183)	(85)
Proceeds from exercise of stock options	52	1,542	3,207
Net cash (used in) provided by financing activities	375,299	(24,164)	(6,201)
Less: Net change in cash and cash equivalents from discontinued operations	(34)	(41)	—
Net change in cash and cash equivalents	4,016	(10,028)	9,446
Cash and cash equivalents at beginning of period	4,553	14,622	5,176
Cash and cash equivalents at end of period	$8,535	$ 4,553	$ 14,622
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$10,990	$ 665	$ 87
Income taxes	$1,191	$ 2,271	$ 3,756
Non cash investing and financing activities:			
Capital expenditures included in accounts payable at end of period	$5,999	$ 3,927	$ 968
Tenant improvement allowance receivables	$13,755	$ —	$ —
Capital lease	$887	$ —	$ —
Cumulative effect adjustment	$299	$ —	$ —
Acquisition of trade name financed by current liabilities	$—	$ —	$ 100

See accompanying notes to consolidated financial statements.

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DEL FRISCO’S RESTAURANT GROUP, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
1. Organization, Business and Basis of Presentation
Description of Business
As of December 25, 2018 Del Frisco’s Restaurant Group, Inc. ("we," "us," "our," “Del Frisco’s” or the “Company”) owned and operated 73 restaurants under the concept names of Del Frisco’s Double Eagle Steakhouse (“Double Eagle”), Barcelona Wine Bar (“Barcelona”), bartaco, and Del Frisco’s Grille (“Grille”). Of the 73 we owned and operated at the end of the period covered by this report, there were 16 Double Eagles restaurants, 15 Barcelona restaurants, 18 bartaco restaurants, and 24 Grille restaurants. During fiscal 2018, we opened three Double Eagle restaurants at Back Bay in Boston, Massachusetts, Atlanta, Georgia and San Diego, California, three bartaco restaurants, post Barteca Acquisition, in North Hills, North Carolina, Fort Point, Massachusetts and Dallas, Texas, and three Grille restaurants in Westwood, Massachusetts, Philadelphia, Pennsylvania and Fort Lauderdale, Florida.
Recent Developments
On June 27, 2018 (“Acquisition Date”), we completed the acquisition of all outstanding interests in Barteca Holdings, LLC ("Barteca Acquisition"), a Delaware limited liability company, and its subsidiaries (“Barteca”) for total cash consideration of $331.2 million, which represents a purchase price of $325 million plus customary adjustments including payments for cash remaining in the business.
In connection with the completion of the Barteca Acquisition, we entered into a new credit agreement that provides for (i) senior secured term loans in an aggregate principal amount of $390.0 million (“Term Loan B”) and (ii) senior secured revolving credit commitments in an aggregate principal amount of $50.0 million (“Revolving Loan,” and, collectively with the term loans, the “2018 Credit Facility”). See Note 9, Long-Term Debt in the notes to our consolidated financial statements for information regarding our credit facility.
On August 1, 2018, we entered into an underwriting agreement with certain underwriters with respect to (i) the sale by the Company of 11,250,000 shares of the Company’s common stock, par value $0.001 per share, to the underwriters and (ii) the grant by the Company to the underwriters of an option (the “Option”) to purchase up to 1,687,500 additional shares of the Company’s common stock (together, the “Shares”). The sale of the Shares, including the exercise in full of the Option, closed on August 6, 2018. The total proceeds of $97.8 million from the public offering of common stock were used to repay a portion of Term Loan B. See Note 9, Long-Term Debt in the notes to our consolidated financial statements.
On August 27, 2018, we amended (the “First Amendment”) Term Loan B (“Amended Term Loan B”). The First Amendment amends the 2018 Credit Facility to, among other things, provide the Company with additional term loans (“Additional Term Loans”) in an aggregate principal amount of $18.0 million. The First Amendment also amended the 2018 Credit Facility to increase the interest rate applicable to the Additional Term Loans and the existing term loans outstanding under the 2018 Credit Facility to, at our option, a rate per annum equal to either a LIBOR or a base rate, plus an applicable margin, which is equal to 6.00% for LIBOR rate loans and 5.00% for base rate loans. See Note 9, Long-Term Debt in the notes to our consolidated financial statements for information regarding our amended credit facility.
On September 21, 2018, we sold all of the outstanding equity interests in our Sullivan’s Steakhouse business (“Sullivan’s") to Sullivan’s Holding LLC, a Delaware limited liability company and affiliate of Romano’s Macaroni Grill, for the total gross proceeds of approximately $32 million, subject to customary adjustments for inventory and cash. See Note 4, Dispositions in the notes to our consolidated financial statements for information regarding discontinued operations.
2. Summary of Significant Accounting Policies
Principles of Consolidation
The consolidated financial statements include the accounts of Del Frisco's Restaurant Group, Inc. and its wholly owned subsidiaries (we, us, our or the Company). All significant intercompany accounts and transactions have been eliminated.

Fiscal Year

We operate on a 52- or 53-week fiscal year ending the last Tuesday in December. Fiscal 2018, 2017 and 2016 included 52 weeks of operations. Beginning in fiscal 2018, we changed to a fiscal quarter calendar where each quarter contains 13 weeks, other than in a 53-week year where the last quarter of the year will contain 14 weeks. Previously, the first three quarters of our fiscal year consisted of 12 weeks each and the fourth quarter consisted of 16 weeks or 17 weeks in a 53-week year.

Concentrations

We have certain financial instruments exposed to a concentration of credit risk, which consist primarily of cash and cash equivalents. We place cash with high-credit-quality financial institutions, and, at times, such cash may be in excess of the federal depository insurance limit.

Additionally, we purchased a significant amount of total beef purchases from two suppliers during fiscal 2018, and from one supplier during fiscal 2017 and 2016. Due to the nature of the beef purchases, there are alternative sources of supply available; however, a change in suppliers could potentially cause increased costs.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include currency on hand, demand deposits with banks or other financial institutions, credit card receivables, and short-term investments with maturities of three months or less when purchased. Book overdraft balances resulting from the Company’s cash management program are recorded as accounts payable.

Financial Instruments

We consider the carrying amounts of cash and cash equivalents, short-term investments, receivables and accounts payable to approximate fair value based on the short-term nature of these items. Borrowings available under the credit facility at December 25, 2018 have variable interest rates that reflect currently available terms and conditions for similar debt. See Note 15 Fair Value Measurement.

We recognize all derivative instruments as either derivative assets or liabilities in the Consolidated Balance Sheets and measure their carrying amounts at fair value. We currently only enter into and hold derivatives for hedging purposes and specifically, cash flow hedges. When we apply hedge accounting to a derivative, we will identify the specific designated derivative and the hedged item in contemporaneous documentation at inception of the hedging relationship. We will also assess effectiveness of the hedge at inception and on an ongoing basis. The hedge accounting will be discontinued when: (i) the designated derivative matures or is sold, terminated or exercised (ii) change of circumstances renders the hedging relationship illegible for hedge accounting. For example, hedge effectiveness assessment shows that the hedge is no longer highly effective or (iii) by management’s discretion. See Note 8 Derivative Financial Instruments to the consolidated financial statements.

We follow the cash flow hedge guidance under ASU 2017-12 to determine the profit and loss impact of cash flow hedges. Specifically, we book the entire change in the fair value of the hedging derivative in other comprehensive income (loss). Those amounts are subsequently reclassified to earnings in the same line item in the Consolidated Statements of Operations and Comprehensive Income (Loss) that is used to present the earnings effect of the hedged item when the hedged item affects earnings.

We classify any cash flows from our cash flow hedges in the same category in the Consolidated Statements of Cash Flows as the cash flows from the items subject to the hedging relationships. We assess the effectiveness of the hedge relationship based on the changes in an option’s intrinsic value and excludes the option’s time value (excluded component). We elect to amortize the initial value of the excluded component into earnings over the life of the cash flow hedges.

Inventories

Inventories, which primarily consist of food and beverages, are valued at the lower of cost, using the first-in, first-out (FIFO) method, or net realizable value.

Property and Equipment

Property and equipment are stated at cost. Maintenance, repairs, and renewals that do not enhance the value or increase the lives of the assets are expensed as incurred.

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The estimated useful lives of the assets are as follows:

Description	Asset Life
Land Improvements	15 years (straight-line)
Buildings and improvements	39 years (straight-line)
Leasehold improvements	Lesser of 20 years or Life of Lease (straight-line)
Computer/Software	4 years (straight-line)
Restaurant & Office Equipment	7 years (straight-line)
Point-of-Sale Equipment	4 years (straight-line)
Furniture/Décor	7 years (straight-line)
Auto/Trucks	5 years (straight-line)
Smallwares	2 years (straight-line)

The Company evaluates arrangements for which it is involved in the construction of leased restaurant space to determine whether build-to-suit accounting criteria have been met. When arrangements meet such criteria, the Company is deemed the owner of the construction project, which is generally limited to the leased restaurant space and build-out thereof. The Company accumulates costs related to build-to-suit projects in its construction-in-progress account until the restaurant opens. At that time, the costs accumulated to date are reclassified to property and equipment and are depreciated according to the Company's depreciation policies. See Note 10 Financing Lease Obligations.

Interest is capitalized in connection with the construction of restaurant facilities. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset’s estimated useful life. Capitalized interest was $1.1 million for the fiscal year ended December 25, 2018, $0.1 million for the fiscal year ended December 26, 2017, and a nominal amount for the fiscal year ended December 27, 2016.

Operating Leases

We currently lease all of our restaurants. The majority of our leases provide for minimum annual rents with some containing percentage-of-sales rent provisions, against which the minimum rent may be applied. The majority of our leases also provide for rent escalation clauses, contingent rental expense, and/or tenant improvement allowances. Rent expense is recognized on a straight-line basis over the expected term of the lease, which includes optional renewal periods that are reasonably assured to be exercised and where failure to exercise such renewal options would result in an economic penalty to us.

Certain of our operating leases contain clauses that provide additional contingent rent based on a percentage of sales greater than certain specified target amounts. We recognize contingent rent expense prior to the achievement of the specified target that triggers the contingent rent, provided achievement of that target is considered probable.

We record tenant improvement allowances and other landlord incentives as a component of deferred rent which is amortized on a straight-line basis over the expected term of the lease.

Pre-opening Costs

Pre-opening costs, including rent, labor costs, costs of hiring and training personnel, and certain other costs related to opening new restaurants, are expensed when the costs are incurred.

Goodwill and Other Intangible Assets

Our intangible assets primarily include goodwill, trade names and licensing agreements. Our trade names include “Del Frisco’s Double Eagle Steakhouse”, “Barcelona Wine Bar” and "bartaco", all of which have indefinite lives and, accordingly, are not subject to amortization. Goodwill represents the excess of costs over the fair value of the net assets acquired.

Goodwill and intangible assets that have indefinite useful lives are not amortized. However, both goodwill and trade names are subject to annual impairment testing, or more frequently if an event or other circumstance indicates that goodwill or the trade names may be impaired. We amortize our finite-lived intangible assets on a straight-line basis over the estimated period of benefit, generally 7 to 17 years. Liquor licenses that were acquired in the Barteca Acquisition are amortized over an estimated useful life of each individual license, which is currently estimated to be one year. See Note 5 Intangible Assets and Goodwill for additional information.

The impairment evaluation for goodwill is conducted annually. The fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. The estimated fair value of the reporting unit is generally determined on the basis of discounted future cash flows and a market-based approach. We make assumptions regarding future profits and cash flows, expected growth rates, terminal value, and other factors which could significantly impact the fair value calculations. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, an impairment charge is recorded for the difference not to exceed the carrying value of the goodwill. Currently, our reporting units are the Del Frisco’s Double Eagle, Barcelona Wine Bar and bartaco reporting units. We perform our annual impairment test as of year-end.

The evaluation of the carrying amount of other intangible assets with indefinite lives is made annually by comparing the carrying amount of these assets to their estimated fair value. The estimated fair value is determined on the basis of existing market-based conditions as well as discounted future cash flows or the royalty-relief method for trade names. If the estimated fair value is less than the carrying amount, an impairment charge is recorded to reduce the asset to its estimated fair value.

The valuation approaches used to determine the fair value of each reporting unit and other intangible assets are subject to key judgments and assumptions about revenue growth rates, operating margins, weighted average cost of capital and comparable company and acquisition market multiples. When developing these key judgments and assumptions, which are sensitive to change, management considers economic, operational and market conditions that could impact the fair value. The judgments and assumptions used are consistent with what management believes hypothetical market participants would use. However, estimates are inherently uncertain and represent only reasonable expectations regarding future developments.

The valuation result for our Double Eagle reporting unit showed that the fair value was significantly in excess of the carrying value, and the valuation results for our Barcelona and bartaco reporting units showed that the fair values were in excess of the carrying values by approximately 5% and 6%, respectively. Unfavorable fluctuations in the discount rate or declines in forecasted revenues and margins could result in an impairment. Any increase in discount rate, in conjunction with any decrease to the long-term projections in cash flows will negatively affect the current valuations. Due to the inherent uncertainties involved in making the estimates and assumptions used in the fair value analysis, actual results may differ, which could alter the fair value of the reporting units, and possibly result in impairment charges in future periods.

In January 2017, the FASB issued ASU 2017-04, Simplifying the Test for Goodwill Impairment, which removes the second step of the goodwill impairment test and requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying value exceeds the fair value, not to exceed the total amount of goodwill allocated to that reporting unit. ASU 2017-04 is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2019, and early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. An entity should apply ASU 2017-04 using a prospective transition method. We elected to early adopt this ASU beginning in fiscal 2017.

Loan Costs

Loan costs are stated at cost and amortized using the effective interest method over the life of the related loan. See Note 9 Long-Term Debt.

Deferred Compensation Plan

In connection with our deferred-compensation plan, we have created a grantor trust to which we contribute amounts equal to employee participants’ qualified deferrals and our matching portion. The plan is informally funded using life insurance policies and mutual funds held by the grantor trust. All assets held by the grantor trust remain the property of us; however, we do not currently intend to use such assets for any purpose other than to fund payments to the participants, pursuant to the terms of the deferred-compensation plan. The assets of the plan consist principally of cash surrender values of the life insurance policies. Because the investment assets of the deferred-compensation plan are our assets and would be subject to general claims by creditors in the event of our insolvency, the accompanying consolidated balance sheets reflect such investments as assets, with a liability for deferred compensation reflected in long-term liabilities for amounts owed to employees.

Impairment of Long-Lived Assets

Property and equipment and finite-life intangibles are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. We review applicable finite-lived intangible assets and long-lived assets related to each restaurant on a periodic basis. Our assessment of recoverability of property and equipment and finite-lived intangible assets is performed at the component level, which is generally an individual restaurant. When events or changes in circumstances indicate an asset may not be recoverable, we estimate the future cash flows expected to result from the use of the asset. If the sum of the expected discounted future cash flows is less than the carrying value of the asset, an impairment loss

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is recognized. The impairment loss is recognized by measuring the difference between the carrying value of the assets and the estimated fair value of the assets. Our estimates of fair values are based on the best information available and require the use of estimates, judgments, and projections. The actual results may vary significantly from the estimates.
During the third quarter of fiscal 2018, we determined that the carrying value of one Double Eagle and two Grille restaurants was most likely not recoverable. Therefore, we recorded a non-cash impairment charge of $2.1 million, of which $2.0 million was related to the Chicago Double Eagle restaurant, which represents the difference between the carrying values of the restaurant assets and the estimated fair values of leasehold improvements, furniture and restaurant equipment that may be transferred to other restaurant locations.These amounts are included in impairment charges in the consolidated statements of operations.
During fiscal 2017, we determined that the carrying values of one Double Eagle and four Grille restaurants were most likely not recoverable. Therefore, we recorded a non-cash impairment charge of $22.9 million, which represents the difference between the carrying values of the restaurant assets and the estimated fair values of leasehold improvements, furniture and restaurant equipment that may be transferred to other restaurant locations. These amounts are included in impairment charges in the consolidated statements of operations.
During fiscal 2016, we did not recognize impairment charges of long-lived assets.

Self-Insurance Reserves

We maintain self-insurance programs for our workers' compensation and general liability insurance programs. In order to minimize the exposure under the self-insurance programs, we have purchased stop-loss coverage both on a per-occurrence and on an aggregate basis. The self-insured losses under the programs are accrued based on our estimate of the expected liability for both claims incurred and incurred but not reported basis. The establishment of such accruals for self-insurance involves certain management judgments and assumptions regarding the frequency or severity of claims, the historical patterns of claim development, and our experience with claim-reserve management and settlement practices. To the extent actual results differ from the assumptions used to develop the accruals, such unanticipated changes may produce significantly different amounts of expense than those estimated under the self-insurance programs.

Business Combination.

On June 27, 2018, we completed the acquisition of all outstanding interests in Barteca, which was accounted for as a business combination using the acquisition method of accounting.
In accordance with the acquisition method of accounting for business combinations, we allocated the purchase price of acquired businesses to the tangible and intangible assets acquired and liabilities assumed based on estimated fair values. Our purchase price allocation methodology contains uncertainties because it requires us to make certain assumptions and to apply judgment to estimate the fair value of acquired assets and liabilities, including, but not limited to, property and equipment, intangible assets, and goodwill. We estimate the fair value of assets and liabilities based upon widely accepted valuation techniques, including discounted cash flows and market multiple analyses depending on the nature of the assets acquired or liabilities assumed. The process for estimating fair values in many cases requires the use of significant estimates, assumptions and judgments, including determining the timing and estimates of future cash flows and developing appropriate discount rates. Unanticipated events or circumstances may occur which could affect the accuracy of our fair value estimates, including assumptions regarding industry economic factors and business strategies. We expect to finalize the purchase price allocation as soon as practicable within the measurement period, but not later than one year following the acquisition date. Any adjustments to fair value subsequent to the measurement period are reflected in the consolidated statements of net income and comprehensive income.

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on differences between financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.
We regularly evaluate the likelihood of realization of tax benefits derived from positions we have taken in various

federal and state filings after consideration of all relevant facts, circumstances, and available information. For those tax benefits deemed more likely than not that will be sustained, we recognize the benefit we believe is cumulatively greater than 50% likely to be realized. To the extent we were to prevail in matters for which accruals have been established or be required to pay amounts in excess of recorded reserves, the effective tax rate in a given financial statement period could be materially impacted.

On December 22, 2017, the Tax Cuts and Jobs Act (H.R. 1) (TCJA) was enacted. The TCJA contains significant changes to corporate taxation, including reduction of the federal corporate tax rate from 35% to 21% effective for tax years beginning after December 31, 2017, limitation of the tax deduction for interest expense, limitation of the deduction for net operating losses and elimination of net operating loss carrybacks, and modifying or repealing many business deductions and credits including the limitation on deductions for certain executive compensation arrangements under Section 162(m) of the Internal Revenue Code. We completed our accounting for the TCJA under ASC 740 during fiscal 2018. See Note 7 Income Taxes.

The Company assesses the available positive and negative evidence at each balance sheet date to determine whether sufficient future taxable income will be generated to permit the use of existing deferred tax assets. The purpose of this analysis is to assess whether it is more likely than not that some or all of our deferred tax assets will not be realized. Significant judgment is required in estimating valuation allowances for deferred tax assets and in making this determination, we consider all available positive and negative evidence and make certain assumptions. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in the applicable carryback or carryforward periods. To the extent we generate sufficient taxable income in the future to fully utilize the tax benefits of the net deferred tax assets on which a valuation allowance was recorded; our effective tax rate may decrease as the valuation allowance is reversed. During fiscal 2018, the Company entered a three year cumulative loss position and established a valuation allowance against deferred tax assets, as of December 25, 2018 valuation allowance was $17.4 million against deferred tax assets. See Note 7 Income Taxes.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the fiscal years ended December 25, 2018, December 26, 2017 and December 27, 2016 was $8.3 million, $6.3 million, and $5.8 million, respectively.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU 2014-09”) – Revenue from Contracts with Customers, and issued subsequent amendments to the initial guidance to provide additional clarification on specific topics (“Topic 606”). Topic 606 provides a comprehensive revenue recognition model requiring companies to recognize revenue for the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. The guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The Company adopted Topic 606 as of December 27, 2017 by applying the cumulative effect transition method. Based on our evaluation of our revenue streams, the Company has determined that there was not a material impact as of the date of adoption between the new revenue standard and how we previously recognized revenue, and therefore the adoption did not have a material effect on our consolidated financial statements. The primary item affected by the adoption of Topic 606 was the deferred revenue from our loyalty program. While we do not anticipate changes to this revenue stream to be material, as stated above, we do expect to recognize income from this revenue stream earlier than it was previously recognized under the prior guidance, by bifurcating the performance obligations associated with our loyalty program. As a result of adopting Topic 606, the cumulative effect to our retained earnings was approximately $0.3 million, net of tax effect. For other revenue streams, there was no material change in the timing of revenue recognition as our accounting policies under the prior guidance was materially consistent with Topic 606.

The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a restaurant Guest or other customer. Revenue from restaurant sales is recognized when food and beverage products are sold, as the Company’s performance obligation to provide food and beverage to the customer has been satisfied.

Proceeds from the sale of gift cards are recorded as deferred revenue at the time of sale and recognized as revenue when the Company’s performance obligations to provide food and beverage to the customer is satisfied upon redemption by the holder or when we expect to be entitled to gift card breakage and we determine there is no legal obligation to remit the value of the unredeemed gift cards to governmental agencies.

We determine the gift card breakage rate based upon historical redemption patterns. The Company recognizes gift card breakage by applying its estimate of the rate of gift card breakage on a pro rata basis over the period of estimated redemption. Certain of our gift cards are sold at a discount and the net value (face value to be redeemed less the proceeds received) is deferred until redeemed or breakage is deemed appropriate.

During the fourth quarter of 2018, we re-evaluated the estimated timing of gift card redemptions as it relates to the length of time over which our customers are likely to redeem a gift card. We also re-evaluated the estimated percentage of gift card breakage to recognize and aligned the recognition of gift card breakage revenue based on most recent redemption history available. As a result, the Company recognized a $0.7 million reduction to the gift card breakage revenue from continued operations. This change in accounting estimate increased the net loss from continued operations by $0.4 million or $0.03 per diluted share, based on the current effective tax rate, for the 52 weeks ended December 25, 2018.

During the fourth quarter of 2017, we re-evaluated the estimated redemption patterns related to gift cards and aligned the recognition of gift card breakage revenue to the updated estimated redemption patterns. As a result, the Company recognized $0.7 million of

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additional gift card breakage revenue, partially offset by $0.2 million of expense related to gift card discount in 2017 that it would not have recognized using the previous estimated redemption pattern. This change in accounting estimate reduced net loss by $0.6 million or $0.03 per diluted share, based on the current effective tax rate, for the 52 weeks ended December 26, 2017.

Deferred revenue relates to unearned gift card liability and our loyalty program in which registered members earn loyalty points when they join and when they make purchases. We recognize the current sale and defer a portion of the revenue to reflect the value of the loyalty points the member is entitled to receive. We estimate the future value of the loyalty point based on the historical average value of redemptions. We also estimate what portion of registered members are not likely to redeem based on historical activity and recognize the deferred revenue related to those purchases. We recognize the deferred revenue in restaurant revenue on earned rewards when the Company satisfies its performance obligation at redemption, or upon expiration. We compare the estimate of the value of future awards to historical redemptions to evaluate the reasonableness of the deferred amount.

Prior to the adoption of Topic 606, revenue from restaurant sales is recognized when food and beverage products are sold. Proceeds from the sale of gift cards are recorded as deferred revenue at the time of sale and recognized as revenue when the gift card is redeemed by the holder or the likelihood of redemption becomes remote (gift card breakage) and we determine there is no legal obligation to remit the value of the unredeemed gift cards to governmental agencies. We determine the gift card breakage rate based upon historical redemption patterns. Certain of our gift cards are sold at a discount and the net value (face value to be redeemed less the proceeds received) is deferred until redeemed or breakage is deemed appropriate. Additionally, revenues are net of the cost of loyalty points earned associated with sales made to customers in our loyalty program. We exclude from revenue any taxes assessed by governmental agencies that are directly imposed on revenue-producing transactions between us and a customer.

Contract liabilities

Unearned gift card revenue at December 25, 2018, December 26, 2017, and December 27, 2016 was $9.3 million, $10.3 million, and $11.3 million and recorded in deferred revenue. Unearned loyalty revenue, which was also included in deferred revenue in the accompanying consolidated balance sheets, was $7.3 million and $7.4 million at December 25, 2018, and December 26, 2017.

Revenue recognized in the consolidated statements of operations and comprehensive income (loss) for the redemption of gift cards that were included in the liability balance at the beginning of the fiscal year was as follows:

	Fiscal Year Ended		
(Amounts in thousands)	December 25, 2018	December 26, 2017	December 27, 2016
Gift card revenue	$11,855	$ 12,726	$ 12,797

Stock-Based Compensation

In 2012, we adopted the Del Frisco’s Restaurant Group, Inc. 2012 Long-Term Equity Incentive Plan (2012 Plan), which allows our Board of Directors or a committee thereof 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 us. We recognize stock-based compensation in accordance with Compensation—Stock Compensation (ASC Topic 718). Stock-based compensation cost includes compensation cost for all share-based payments granted based on the grant date fair value estimated in accordance with the provisions of Topic 718. Compensation cost is recognized on a straight-line basis, net of estimated forfeitures, over the requisite service period of each award.

Reclassifications

Certain amounts from the prior years have been reclassified to conform with the fiscal 2018 presentation.

Other Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) ("ASU 2016-15") – Classification of Certain Cash Receipts and Cash Payments. This ASU is intended to clarify the presentation of cash receipts and payments in specific situations. The amendments in this update were effective for financial statements

issued for annual periods that began after December 15, 2017, including interim periods within those annual periods, and early application was permitted. An entity should apply ASU 2016-15 using a retrospective transition method to each period presented. We adopted ASU 2016-15 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.
In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) ("ASU 2016-18") – Restricted Cash, which outlines that a statement of cash flows explains the change during the period in total cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 was effective for public business entities for annual periods, including interim periods within those annual periods, that began after December 15, 2017, and early application

was permitted. An entity should apply ASU 2016-18 using a retrospective transition method to each period presented. We adopted ASU 2016-18 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation (Topic 718) ("ASU 2017-09") – Scope of Modification Accounting, which provides clarity and reduces complexity when an entity has changes to the terms or conditions of a share-based payment award, and when an entity should apply modification accounting. The amendments in this update are effective for financial statements issued for annual periods that began after December 15, 2017, including interim periods within those annual periods, and early adoption was permitted for interim or annual periods. The amendments in ASU 2017-09 should be applied prospectively to awards modified on or after the adoption date. We adopted ASU 2017-09 beginning in fiscal 2018. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815) (“ASU 2017-12”) – Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 is intended to (1) improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities by better aligning the entity's financial reporting for hedging relationships with those risk management activities and (2) reduce the complexity of and simplify the application of hedge accounting by preparers. We early adopted ASU 2017-12 on June 27, 2018 (Adoption Date). ASU 2017-12 requires that certain provisions be applied on a modified retrospective basis upon adoption, which results in a cumulative catch-up adjustment to the opening balance of accumulated other comprehensive income with a corresponding adjustment to retained earnings as of the beginning of the fiscal year of adoption, which is January 1, 2018 (Application Date). Given that no outstanding hedge existed at the Application Date, no provisions elected by us will result in a cumulative effect adjustment to retained earnings. Consequently, the adoption did not have a material impact on our Consolidated Financial Statements and related disclosures. See Note 8 Derivative Instruments for disclosures on our derivative instrument and hedging activities.

Recently Issued Standards

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). which requires a lessee to recognize assets and liabilities for leases with lease terms of more than 12 months. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance (formerly capital) or operating lease. However, unlike current GAAP, which requires only capital leases to be recognized on the balance sheet, ASU 2016-02 will require all leases with an initial term greater than one year to be recognized on the balance sheet as a right-of-use ("ROU") asset and a lease liability. ASU 2016-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Early adoption is allowed. The standard provides for a transition method using a modified retrospective approach, which includes a number of optional practical expedients. In July 2018, the FASB issued ASU 2018-11, Leases (Topic 842) Targeted Improvements, which allows lessees to recognize and measure leases at the beginning of the period of adoption without modifying the comparative period financial statements.

We will adopt ASU 2016-02 in the first quarter of 2019 utilizing the modified retrospective transition method through a cumulative-effect adjustment at the beginning of the first quarter of 2019. We will elect the package of practical expedients permitted under the transition guidance, which allows us to carryforward our historical lease classification, our assessment on whether a contract is or contains a lease, and our initial direct costs for any leases that exist prior to adoption of the new standard. We will make an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet. The Company will recognize those lease payments in the Consolidated Statements of Earnings on a straight-line basis over the lease term. Currently we expect the most significant impact will be the recognition of right-of-use assets and lease liabilities for operating leases with original terms of over 12 months where the Company is the lessee. We estimate adoption of the new lease standard will result in recognition of right-of-use assets of between $149.5 million and $169.5 million, and lease liabilities of between $201.4 million and $221.4 million, as of December 26, 2018. We also expect to record a cumulative effect adjustment to increase retained earnings of between $5.7 million and $7.7 million, due to current build-to-suit leases and prior deferred gains on sales

leaseback transactions.
In August 2018, the FASB issued ASU No. 2018-15, Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40) ("ASU 2018-15") - Customer's Accounting for Implementation Costs incurred in a Cloud Computing Arrangement that is a Service Contract. ASU 2018-15 reduces the complexity of accounting for costs of implementing a cloud computing service arrangement and aligns the following requirements to capitalize implementation costs: (i) those incurred in a hosting arrangement that is a service contract, and (ii) those incurred to develop or obtain internal-use software, including hosting arrangements that include an internal software license. This amended guidance is first effective for our fiscal year beginning on December 15, 2019 with early adoption permitted. The guidance may be adopted either using the prospective or retrospective approach. We are currently evaluating the impact of this new guidance on our financial position and results of operations.

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3. Acquisitions

On the Acquisition Date, we completed the acquisition of all outstanding interests in Barteca for total cash consideration of $331.2 million, which represents a purchase price of $325 million plus customary adjustments including payments for cash remaining in the business. Barteca owns and operates two restaurant concepts: Barcelona and bartaco. Barcelona and bartaco restaurant concepts are innovative, with a unique vibe, food, drinks and design. Barcelona serves as a neighborhood Spanish tapas bar with an ever-changing selection of tapas, using both local and seasonal ingredients as well as specialties from Spain and the Mediterranean. Barcelona has a superior Spanish wine program and an award winning selection of wines, with 15 locations in seven states and the District of Columbia. bartaco combines fresh, upscale street food with a coastal vibe in a relaxed environment and is inspired by a healthy, outdoor lifestyle. bartaco has 18 locations across ten states.

The following table summarizes the preliminary fair value of identified assets acquired and liabilities assumed at the Acquisition Date:

(Amounts in thousands)	As of June 27, 2018
Purchase price	$331,199
Allocation of purchase price	
Cash and cash equivalents	6,006
Accounts receivable	3,311
Inventory	2,068
Prepaid expenses and other assets	3,740
Leasehold improvements	34,919
Buildings and improvements	17,967
Furniture, fixtures, and equipment	13,207
Construction in progress	4,340
Other assets	1,421
Intangible assets	185,080
(Unfavorable) leases	(785)
Accounts payable and other liabilities	(14,111)
Financing lease obligations	(13,340)
Deferred taxes	(24,825)
Total fair value of net assets acquired:	218,998
Goodwill	$112,201

Intangible assets acquired primarily include liquor licenses and bartaco and Barcelona trade names. The fair value of the acquired liquor licenses and trade names are $1.1 million and $183.0 million, respectively. Other intangible assets were valued at approximately $0.2 million. Liquor licenses acquired will be amortized over an estimated useful life of each individual license, which is currently estimated to be one year. Trade names represent intangible assets with indefinite life.

As a result of the acquisition, we have recognized approximately $112.2 million of goodwill, of which $104.7 million is deductible for income tax purposes. Goodwill, of which $42.0 million and $70.2 million is attributable to the Barcelona and bartaco reportable segments, respectively, represents the excess of the purchase price over the aggregate fair value of net assets acquired and is related to the benefits expected as a result of the acquisition, including sales, development and growth opportunities. We believe that Barcelona and bartaco are highly complementary and will provide Del Frisco’s portfolio with significant growth and development opportunities, enabling us to capture market share in the experiential dining segment, while mitigating the effects of seasonality and the risk of economic downturns to our restaurant portfolio.

The purchase accounting is incomplete and our estimates and assumptions are subject to change during the measurement period (up to one year from the acquisition date). The primary area of the purchase price allocation that is not yet finalized relate to deferred taxes, which will have a corresponding change to goodwill.
Amounts previously estimated have changed during the measurement period. The changes in estimates included an increase of $4.5 million of buildings and improvements, an increase of $2.0 million of financing lease obligations and a decrease of $0.9 million in accounts payable. We recorded measurement-period adjustments in the fourth quarter of 2018. Depreciation and interest expenses each increased by $0.3 million and $0.1 million, respectively as a result of these measurement-period adjustments.

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Pro Forma Results of Operations (unaudited)

The following pro forma results of operations for the fiscal years ended December 25, 2018 and December 26, 2017, have been prepared as though the business acquisition occurred as of the beginning of the prior period presented. This pro forma financial information is not indicative of the results of operations that the Company would have attained had the acquisition occurred at the beginning of the periods presented, nor is the pro forma financial information indicative of the results of operations that may occur in the future:

(Amounts in thousands)	Fiscal Year Ended December 25, 2018	December 26, 2017
Revenues	$446,434	$ 421,996
Net loss	(65,329)	(39,312)
Net loss per average common share		
Basic	$(2.57)	$ (1.82)
Diluted	$(2.57)	$ (1.82)

The above pro forma information includes Barcelona and bartaco actual revenues and net loss of $74.3 million and $1.2 million, respectively, contributed post acquisition for the fiscal year ended December 25, 2018. The combined companies incurred acquisition costs and wrote off deferred financing costs related to the transaction and debt amendment of $11.5 million and $18.3 million, respectively, for the fiscal year ended December 25, 2018. These charges are reflected in pro forma net loss for the fiscal year ended December 26, 2017. Pro forma revenues exclude Sullivan’s for each period presented as these amounts are reflected as discontinued operations in the Consolidated Statements of Operations. See Note 4, Dispositions in the notes to our consolidated financial statements for information regarding discontinued operations.

4. Dispositions

On September 21, 2018, we sold all of the outstanding equity interests in our Sullivan’s Steakhouse business to Sullivan’s Holding LLC, a Delaware limited liability company and affiliate of Romano’s Macaroni Grill for the total gross proceeds of approximately $32 million, subject to customary adjustments for inventory and cash.

The results of Sullivan’s operations have been reflected as discontinued operations for all periods presented, and the related assets and liabilities as of December 26, 2017 were reclassified as held for sale. Sullivan’s Steakhouse had been previously disclosed as a separate reportable segment. Disposition costs related to the sale of Sullivan’s were approximately $2.0 million. These costs are reported in discontinued operations as they represent a cost directly related to the disposal and were included within the loss from sale of discontinued operations before income tax presented below.

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(Amounts in thousands)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Revenues	$41,280	$ 67,604	$ 77,797
Costs and expenses:			
Cost of sales	12,889	20,359	22,862
Restaurant operating expenses (excluding depreciation and amortization shown separately below)	21,340	35,650	40,282
Insurance recovery	—	(1,073)	—
Marketing and advertising costs	1,112	2,075	2,471
General and administrative costs	1,403	1,530	1,816
Disposition costs	436	—	—
Lease termination and closing costs	870	540	889
Impairment charges	84	14,123	598
Depreciation and amortization	2,969	5,804	3,962
Total costs and expenses	41,103	79,008	72,880
Insurance settlements	—	1,153	—
Operating income (loss)	177	(10,251)	4,917
Other income (expense)	(667)	(4)	1
Income (Loss) from discontinued operations before income taxes	(490)	(10,255)	4,918
Loss from sale of discontinued operations before income tax	(23,620)	—	—
Income tax expense	2,327	383	1,487
Loss (income) from discontinued operations	$(26,437)	$ (10,638)	$ 3,431

The carrying amounts of major classes of assets and liabilities that were classified as held for sale in the December 26, 2017 Consolidated Balance Sheet were as follows:

(Amounts in thousands)	As of December 26, 2017
Cash and cash equivalents	$ 41
Inventory	2,490
Prepaid expenses and other assets	497
Current assets held for sale	$ 3,028
Property and equipment, net	22,038
Goodwill	18,313
Intangible assets, net	16,716
Deferred income taxes	—
Other assets	1
Noncurrent assets held for sale	$ 57,068

Accrued payroll	312	
Current portion of deferred rent obligations	263	
Current liabilities held for sale	$	575
Deferred rent obligations	3,664	
Deferred income taxes, net	4,983	
Other noncurrent liabilities	—	
Noncurrent liabilities held for sale	$	8,647

Cash flows from Sullivan’s discontinued operations are included in the accompanying Consolidated Statements of Cash Flows. The significant cash flow items from the Sullivan’s divestiture for the fiscal years ended December 25, 2018, December 26, 2017 and December 27, 2016, are as follows:

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(Amounts in thousands)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Depreciation and amortization	$2,969	$ 5,804	$ 3,962
Capital expenditures	422	8,448	2,489

We performed the annual test for impairment of goodwill and indefinite-lived intangible assets and concluded that $13.4 million impairment, of which $0.3 million was related to the trade name, existed as of December 26, 2017. This represents the difference between the carrying values of the goodwill and trade name for the Sullivan's reporting unit and their estimated fair values.

5. Intangible Assets and Goodwill

The components of intangible assets and goodwill consist of the following:

(Amounts in thousands)	December 25, 2018	December 26, 2017
Amortized intangible assets:		
Gross carrying amount:		
Favorable leasehold interests	$ 940	$ —
Licensing and development rights	1,077	1,077
Other	2,827	361
Total gross carrying amount	4,844	1,438
Accumulated amortization:		
Favorable leasehold interests	(34)	—
Licensing and development rights	(795)	(729)
Other	(180)	(163)
Total accumulated amortization	(1,009)	(892)
Net amortized intangible assets	3,835	546
Unamortized intangible assets:		
Goodwill	156,131	43,928
Trade names	201,643	18,643
Liquor license permits	1,095	1,095
Total unamortized intangible assets	$ 358,869	$ 63,666

Licensing contract rights and favorable lease rights are being amortized using the straight-line method over the estimated lives of the related contracts and agreements, which are seven to nine years for favorable leasehold interest and 17 years for licensing contract rights. Liquor licenses that are transferable are carried at cost. Such licenses are reviewed for impairment on an annual basis. Liquor licenses that were acquired in Barteca Acquisition are amortized over an estimated useful life of each individual license, which is currently estimated to be one year.

Goodwill is allocated to the Del Frisco’s Double Eagle, Barcelona Wine Bar and bartaco reporting units, as follows: $43.9 million, $42.0 million and $70.2 million at December 25, 2018, and $43.9 million for Del Frisco’s Double Eagle at December 26, 2017.

We have estimated that annual amortization expense will amount to approximately $0.1 million for 2019 to 2023. Amortization expense was approximately $0.1 million, for the years ended December 25, 2018, December 26, 2017 and December 27, 2016, respectively.

We performed the annual test for impairment of goodwill and indefinite-lived intangible assets and concluded that no impairment existed as of December 25, 2018, December 26, 2017 and December 27, 2016.

During fiscal 2017, we adopted ASU 2017-04, Simplifying the Test for Goodwill Impairment, which removes the second step of the goodwill impairment test and requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and recognize an impairment charge for the amount by which the carrying value exceeds the fair value, not to exceed the total amount of goodwill allocated to that reporting unit. The adoption did not have an impact on our consolidated financial statements; however, this standard did change our policy for our annual goodwill impairment assessment by eliminating the requirement to calculate the implied fair value of goodwill.

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On March 17, 2016, we entered into an agreement to obtain and clarify ownership of all naming rights for Del Frisco’s in certain counties of Kentucky, Indiana and Ohio for aggregate consideration of $0.6 million. Under the terms of the agreement, we made a payment totaling $0.5 million in 2016, with the remaining $0.1 million paid on August 1, 2017. This intangible asset has been recorded as a trade name with an indefinite life.

6. Leases

We lease certain facilities under noncancelable operating leases with terms expiring between 2019 and 2039. The leases have renewal options ranging from 5 to 20 years, which are exercisable at our option. In addition, certain leases contain escalation clauses based on a fixed percentage increase and provisions for contingent rentals based on a percentage of gross revenues, as defined. Total rental expense amounted to $28.0 million, $21.1 million, and $18.6 million, including contingent rentals of approximately $3.8 million, $3.9 million, and $3.6 million for the fiscal years ended December 25, 2018, December 26, 2017 and December 27, 2016, respectively.

On December 22, 2017, we closed on a Sale-Leaseback transaction for $15.1 million, in which the land, the building and related furniture, fixtures, and equipment for the Del Frisco’s Double Eagle Steakhouse, located in Orlando, Florida were sold. In connection with the sale, we entered into noncancelable lease agreement with the buyer to lease back the real property assets sold, in which the leased property will continue to operate as Del Frisco’s Double Eagle Steakhouse throughout the lease term. The lease provides for a 15 year term with four separate renewal terms of 5 years each if we choose to exercise our right to extend the lease term.

Proceeds for this transaction, net of $0.4 million transaction costs, were $14.7 million and as the result of the transaction, we recorded a net loss of $1.4 million.

Future minimum lease payments under noncancelable operating leases include renewal option periods for certain leases when such option periods are included for purposes of calculating straight-line rents. At December 25, 2018, future minimum rentals for each of the next five years and thereafter, and in total, are as follows:

(Amounts in thousands)	As of December 25, 2018
2019	$32,357
2020	35,070
2021	35,398
2022	36,029
2023	34,871
Thereafter	365,864
Total minimum lease payments	$539,589

7. Income Taxes

Total income tax expense was allocated as follows:

(Amounts in thousands)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Earnings from continuing operations	$(5,653)	$ (13,317)	$ 5,321
Earnings from discontinued operations	2,327	383	1,487
Total consolidated income tax expense (benefit)	$(3,326)	$ (12,934)	$ 6,808

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The components of income tax expense consist of the following:

(Amounts in thousands)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Current tax expense:			
Federal	$1,091	$ 762	$ 1,283
State	1,562	1,554	1,946
Total current tax expense	2,653	2,316	3,229
Deferred tax (benefit) expense:			
Federal	(5,896)	(14,063)	1,855
State	(2,410)	(1,570)	237
Total deferred tax (benefit) expense	(8,306)	(15,633)	2,092
Total income tax (benefit) expense	$(5,653)	$ (13,317)	$ 5,321

On December 22, 2017, the TCJA was signed into law. The TCJA contains significant changes to corporate taxation, including a reduction of the federal corporate tax rate from 35% to 21%, creating a territorial tax system, allowing for immediate expensing of certain qualified property, modifying or repealing many business deductions and credits, and providing other incentives. We completed our accounting for the TCJA under ASC 740 during fiscal 2018.

The $5.7 million income tax benefit was primarily attributable to effect of certain permanent differences, transaction costs incurred for the Barteca Acquisition, and the impact of FICA tip and other credits, offset by the valuation allowance established during fiscal 2018, as a result of the Company having entered into a three year cumulative loss position.

The Company assesses the available positive and negative evidence at each balance sheet date to determine whether sufficient future taxable income will be generated to permit the use of existing deferred tax assets. The purpose of this analysis is to assess whether it is more likely than not that some or all of our deferred tax assets will not be realized. Significant judgment is required in estimating valuation allowances for deferred tax assets and in making this determination, we consider all available positive and negative evidence and make certain assumptions. The realization of a deferred tax asset ultimately depends on the existence of sufficient taxable income in the applicable carryback or carryforward periods. To the extent we generate sufficient taxable income in the future to fully utilize the tax benefits of the net deferred tax assets on which a valuation allowance was recorded; our effective tax rate may decrease as the valuation allowance is reversed. During fiscal 2018, the Company entered a three year cumulative loss position and established a valuation allowance against deferred tax assets, as of December 25, 2018 valuation allowance was $17.4 million against deferred tax assets. Approximately $1.9 million of this valuation allowance was recorded against deferred tax assets established with the acquisition of Barteca, resulting in a corresponding increase to recorded goodwill. See Note 3 Acquisitions for information regarding deferred tax assets established with the acquisition of Barteca. Approximately $11.2 million and $4.3 million of this valuation allowance was recorded in continuing operations and discontinued operations, respectively.

The difference between the reported income tax (benefit) expense and taxes determined by applying the applicable U.S. federal statutory income tax rate to (loss) income before taxes is reconciled as follows:

(Amounts in thousands)	Fiscal Year Ended December 25, 2018		December 26, 2017		December 27, 2016	
Income tax (benefit) expense at federal statutory rate	$(11,652)	21 %	$(4,948)	35 %	$6,810	35 %
State tax (benefit) expense, net	(1,176)	2	(945)	7	1,420	7
FICA tip and work opportunity credits	(4,972)	9	(3,022)	21	(2,814)	(14)
Impacts related to the TCJA	—	—	(4,620)	33	—	—
Valuation allowance	11,189	(20)	—	—	—	—
Other items, net	958	(2)	218	(2)	(95)	(1)

Total income tax (benefit) expense	$(5,653)	10 %	$(13,317)	94 %	$5,321	27 %

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Significant components of deferred tax assets and

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liabilities are presented below:

(Amounts in thousands)	December 25, 2018	December 26, 2017
Deferred tax assets:		
Equity-based compensation	$ 1,923	$ 1,292
Accrued liabilities	3,768	3,472
Deferred compensation	2,190	3,165
Deferred rent liabilities	15,165	12,057
Tax credits carryover	13,934	4,632
Intangible assets – pre-opening costs	1,417	1,807
Debt costs	3,808	—
Net operating losses	10,117	—
Other	7,238	246
Total deferred tax assets	59,560	26,671
Deferred tax liabilities:		
Property and equipment	30,025	18,524
Intangible assets	32,674	11,073
Other	3,361	312
Total deferred tax liabilities	66,060	29,909
Net deferred tax liabilities	$ (6,500)	$ (3,238)
Valuation allowance	$ (17,400)	$ —
Net deferred tax liabilities after valuation allowance	$ (23,900)	$ (3,238)

At December 25, 2018, the Company has $8.8 million and 13.9 million of U.S. Federal net operating loss carryforwards and tax credits, respectively, with various expirations dates between 2034 and 2039. In addition, we have 30.1 million of U.S. Federal net operating loss carryforwards with no expiration as a result of the 2017 Tax Act. The Company also has 22.9 million of state and local NOL carryforwards with various expirations between 2028 and 2039.

Certain federal and state loss carryforwards and credits are subject to Internal Revenue Code Section 382 or similar provisions, which impose limitations on their utilization following certain changes in ownership of the entity generating the loss carryforward. At December 25, 2018, we have U.S. Federal net operating losses and tax credit carryforwards of approximately 10.1 million and 3.0 million, respectively, of which the utilization is subject to limitations under Internal Revenue Code Section 382 or similar provisions. At December 25, 2018, approximately 1.2 million of the U.S. federal net operating loss carryforwards subject to these limitations may be carried forward indefinitely. The remaining U.S. federal net operating losses of 8.8 million and tax credits of 3.0 million subject to these limitations will expire at various dates beginning in 2033. In addition, we have state and local net operating loss carryforwards of 4.9 million subject to similar limitations that expire at various dates beginning in 2028.

We may, from time to time, be assessed interest or penalties by major tax jurisdictions, although any such assessments historically have been minimal and immaterial to our financial results. In the event we receive an assessment for interest and penalties, it has been classified in the consolidated financial statements as income tax expense. Generally, our federal, state, and local tax returns for years subsequent to 2013 remain open to examination by the major taxing jurisdictions to which we are subject.

A reconciliation of the beginning and ending amount of unrecognized tax position is as follows:

(Amounts in thousands)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Balance at beginning of year	$ —	$ 16	$ 40
Additions resulting from current year positions	—	—	—

Additions for positions taken in prior years	——	—
Payments made for settlements	——	—
Expiration of statute of limitations	—(16)	(24)
Balance at end of year	$—$ —	$ 16

We do not believe our uncertain tax positions will change materially during the next 12 months. As of December 25, 2018 we had no accrued interest and penalties included in the consolidated balance sheets, and $0.1 million of accrued interest and penalties included in the consolidated balance sheets as of December 26, 2017. The change in interest and penalties associated with our unrecognized tax benefits is included as a component of the Other, net line of the effective tax rate reconciliation.

8. Derivative Financial Instruments

As of December 25, 2018, we have entered into one derivative instrument designated as a cash flow hedge for risk management purposes. The derivative instrument is used to mitigate our exposure to interest rate fluctuations.

Interest Rate Cap

During fiscal 2018, we entered into an interest rate cap with a notional value of $200.0 million and 3.00% per annum strike rate to hedge the variability of the monthly 1-month LIBOR interest payments on a portion of our Term Loan B. The hedged monthly interest payments began on July 31, 2018 and end on the expiration of the interest rate cap on June 30, 2022. Any variability in the 1-month LIBOR interest payment on the Term Loan Facility beyond 3.00% per annum are offset by the net proceeds received upon exercising the interest rate cap. The interest rate cap was designated as a cash flow hedge at inception.

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The hedge effectiveness for the designated interest rate cap is based on the changes in the interest rate cap's intrinsic value. Accordingly, we will exclude all the change in the time value of the interest rate cap from the assessment. The excluded component will be amortized over the life of the derivative instrument and recognized in Interest, net of capitalized interest in the Consolidated Statements of Operations. The amount of gains that are reported in accumulated other comprehensive income at the reporting date that are expected to be reclassified into earnings within the next 12 months is $0.5 million.

Credit Risk

We are exposed to credit risk of the counterparty with which we entered into the derivative. This is the risk of the counterparty's non-performance pursuant to the derivative contract. The risk will continue to exist as long as the derivative is in an asset position, creating a liability for the counterparty. However, the risk is deemed to be minimal as the counterparty has investment grade credit ratings. We will monitor the counterparty's credit ratings and our market position with the counterparty on an ongoing basis. The interest rate cap does not contain any credit-risk related contingent features.

Quantitative Disclosures on Derivative Instruments

The following tables present the required quantitative disclosures for our derivative instrument, including its estimated fair values (all estimated using Level 2 inputs) and their financial statement presentation for the fiscal year ended December 25, 2018 and December 26, 2017, respectively.

Derivative instruments recorded at fair value in our consolidated balance sheets as of December 25, 2018 and December 26, 2017, respectively, consisted of the following:

	Derivative Assets			
(Amounts in thousands)	December 25, 2018		December 26, 2017	
Derivatives designated as hedging instruments	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Interest rate cap	Other current assets	$1,075	Other current assets	$ —
Total derivatives designated as hedging instruments		$1,075		$ —

The effect of cash flow hedges on accumulated other comprehensive income for the fiscal year ended December 25, 2018 and December 26, 2017 was as follows (Amounts in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income on Derivative*		Location of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income into Income		Classification of Gain or (Loss) Recognized in Income related to Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing)	
	Fiscal Year Ended			Fiscal Year Ended			Fiscal Year Ended	
	December 25, 2018	December 26, 2017		December 25, 2018	December 26, 2017		December 25, 2018	December 26, 2017
Interest rate cap	$ (872)	$ —	Interest, net of capitalized interest	$ —	$ —	Interest, net of capitalized interest	$ 243	$ —

*The portion of gain/loss recognized in Accumulated Other Comprehensive Income related to the component excluded from the assessment of effectiveness was a loss of $0.9 million for the fiscal year ended December 25, 2018.

The effect of cash flow hedges on Consolidated Statements of Operations for the fiscal year ended December 25, 2018, December 26, 2017 and December 27, 2016, was as follows:

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(Amounts in thousands)	Location and Amount of Gain or (Loss) Recognized in Income on Cash Flow Hedging Relationships Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Gain or (loss) on cash flow hedging relationships			
Interest Rate Cap:			
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income	$ —	$ —	$ —
Amount excluded from effectiveness testing using an amortization approach	(243)	—	—
Amount of gain or (loss) reclassified from accumulated other comprehensive income into income as a result that a forecasted transaction is no longer probable of occurring	—	—	—

9. Long-Term Debt

On October 15, 2012, we entered into a credit facility that provided for a three years unsecured revolving credit facility of up to $25 million (the "2012 Credit Facility"). Borrowings under the credit facility bore interest at LIBOR plus 1.50%. We were required to pay a commitment fee equal to 0.25% per annum on the available but unused 2012 Credit Facility. The credit facility was guaranteed by certain of our subsidiaries. The 2012 Credit Facility contained various financial covenants, including a maximum leverage ratio of total indebtedness to EBITDA, as defined in the credit agreement, and minimum fixed charge coverage ratio, as defined in the credit agreement. The 2012 Credit Facility also contained covenants restricting certain corporate actions, including asset dispositions, acquisitions, the payment of dividends, changes of control, the incurrence of indebtedness and providing financing or other transactions with affiliates.

On June 30, 2015, we entered into a Second Amendment to the 2012 Credit Facility. The amendment, among other things, extended the termination date of the credit facility to October 15, 2017 and modified the 2012 Credit Facility commitment to $15 million, with such amount subject to increases in increments of $5 million at our request, up to a maximum amount of $30 million. All other major terms remain unchanged.

On December 21, 2016, we entered into a Third Amendment to the 2012 Credit Facility. The amendment, among other things, extended the termination date of the credit facility to October 15, 2019 and modified the 2012 Credit Facility commitment to $10 million, with such amount subject to increases in increments of $5 million at our request, up to a maximum amount of $30 million.

On April 21, 2017, we entered into a Fourth Amendment to the 2012 Credit Facility that lowered the minimum fixed charge coverage ratio, as defined in the agreement, from 2.00 to 1.25, effective January 1, 2017.

On May 24, 2017, we entered into the Fifth Amendment to the 2012 Credit Facility with JP Morgan Chase Bank. This amendment, among other things, increased the capacity by which the 2012 Credit Facility commitment can be increased by $20 million. Such commitment increases can be made in increments of $5 million at our request, up to a maximum amount of $50 million. Additionally, this amendment modified the definition of Adjusted EBITDA to provide for the exclusion of certain one-time expenses.

On October 20, 2017, we entered into a Sixth Amendment to the 2012 Credit Facility with JP Morgan Chase Bank. The Amendment, among other things, consented to the Company's sale leaseback of its Orlando, Florida Del Frisco's Double Eagle Steakhouse location. Additionally, this amendment modified the definition of the Operating Leverage Ratio under the Loan Agreement.

On June 27, 2018, in connection with the completion of the Barteca Acquisition, we entered into a new credit agreement that provides for (i) a seven years senior secured term loan Term Loan B in aggregate principal amount of $390.0 million bearing interest per annum equal to either a LIBOR or ABR rate, plus an applicable margin, which is equal to 4.75% per annum for LIBOR loans and 3.75% for ABR loans, with the option to maintain or convert base

rate loans to LIBOR loans and (ii) five years senior secured revolving credit commitments ("Revolving Loan") in an aggregate principal amount of $50.0 million with the ability to increase the facility by up to an additional $25.0 million with unpaid amounts bearing interest at 3.50% per annum for LIBOR loans and 2.50% per annum for ABR loans. Similar to the term loan, base rate loans may be maintained or converted to LIBOR loans. Rates may be subject to adjustment by reference to the consolidated total leverage ratio, (collectively with the term loans, the "2018 Credit Facility"). Part of the proceeds from the term loans were used to retire the 2012 Credit Facility.
On August 6, 2018, we received $97.8 million of proceeds from a public offering of common stock that were used to repay a portion of the $390.0 million of the Term Loan B pursuant to an existing prepayment option.

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On August 27, 2018, we amended ("The First Amendment") Term Loan B ("Amended Term Loan B"). The First Amendment amends the 2018 Credit Facility to, among other things, completely re-syndicate the Amended Term Loan B and provide the Company with additional term loans ("Additional Term Loans") in an aggregate principal amount of $18.0 million. We incurred a loss of $18.3 million for the write-off of deferred financing costs related to the original Term Loan B, which is included in interest expense in our Consolidated Statements of Operations. The First Amendment also amended the 2018 Credit Facility to increase the interest rate applicable to the Additional Term Loans and the existing term loans outstanding under the 2018 Credit Facility to, at our option, a rate per annum equal to either a LIBOR or ABR rate, plus an applicable margin, which is equal to 6.00% for LIBOR loans and 5.00% for ABR loans.

As of December 25, 2018, $23.7 million under the 2018 Credit Facility Revolving Loan, was outstanding (excluding amounts reserved for letters of credit in the amount of $1.6 million). As of December 26, 2017, $21.5 million under the 2012 Credit Facility Revolving Loan, was outstanding (excluding amounts reserved for letters of credit in the amount of $1.5 million). The Revolving Loan unpaid amounts bear interest at 3.50% per annum for LIBOR loans and 2.50% per annum for ABR loans. As of December 25, 2018, the Revolving Loan unused commitment fee was 0.50%. The principal amount of the Revolving Loan is due and payable on June 27, 2023.

As of December 25, 2018, $309.4 million was outstanding under the Amended Term Loan B. Interest on the Term Loan B accrues at a rate per annum equal to either a LIBOR rate or a base rate, plus an applicable margin, which is equal to 6.00% for LIBOR loans and 5.00% for base rate loans. The Interest Rate Cap Agreement, which has a notional value of $200.0 million and 3.00% per annum strike rate to hedge the variability of the monthly 1-month LIBOR interest payments on a portion of our Term Loan B, mitigates the risk of an increase in the LIBOR rate in effect on the Amended Term Loan B. See Note 8 Derivative Financial Instruments for further discussion. As of December 25, 2018, the applicable interest rate on the Amended Term Loan B was 8.38%. The Amended Term Loan B is payable in equal quarterly installments of $0.8 million. The outstanding principal of the Amended Term Loan B is due and payable on June 27, 2025.

Amounts outstanding under the 2018 Credit Facility are guaranteed by Del Frisco's and certain of the subsidiaries of Del Frisco’s (collectively, the "Loan Parties"). The 2018 Credit Facility is secured by a first priority security interest in substantially all of the assets of the Loan Parties. The 2018 Credit Facility agreement contains certain representations, warranties and affirmative covenants and financial covenants, including a maximum ratio of total indebtedness to EBITDAR, as defined in the credit agreement governing the credit facility. The total indebtedness to EBITDAR calculation is applicable only when we are over 25% drawn on the Revolver at the end of the reporting period and does not take effect until two full quarters after the Transaction Date, which is August 27, 2018, date of The First Amendment. In addition, the 2018 Credit Facility agreement 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.

Loan Against the Investments in Deferred Compensation Plan

On July 12, 2017, we executed an agreement to borrow against the investments in our deferred compensation plan to pay out funds due to plan participants instead of using operating cash flows. The loan does not have an expiration date or defined payment terms, and accrues interest at a rate of 1.00%, which is net of the 3.00% that is earned by the investments being loaned against. As of December 25, 2018 and December 26, 2017, there was $3.8 million and $3.0 million of outstanding borrowings on this loan.

Long-Term Indebtedness Summary

As of December 25, 2018 and December 26, 2017, long-term debt consisted of the following:

(Amounts in thousands)	As of December 25, 2018	December 26, 2017
Amended Term Loan B	$309,417	$ —
Revolving Loan (2018 Credit Facility)	23,700	—

Revolving Loan (2012 Credit Facility)	—	21,500
Loan Against the Investments in Deferred Compensation Plan	3,820	2,977
Net discount	(12,107)	—
Deferred financing costs	(994)	—
Long-term debt	323,836	24,477
Less current portion	(3,100)	—
Total long-term debt, net	$320,736	$ 24,477

As of December 25, 2018, annual maturities of long-term debt, assuming no acceleration of maturities, were as follows:

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(Amounts in thousands)	As of December 25, 2018
2019	$3,100
2020	3,100
2021	3,100
2022	3,100
2023	3,100
Thereafter	321,437
Total	$336,937

10. Financing Lease Obligations

The Company evaluates arrangements for which it is involved in the construction of leased restaurant space to determine whether build-to-suit accounting criteria have been met. When arrangements meet such criteria, the Company is the deemed owner of the construction project, which is generally limited to the leased restaurant space and build-out thereof. The Company capitalizes the related construction costs and recognizes a financing lease obligation for the construction costs incurred by the landlord when it is the deemed owner of the project. When a construction project for which the Company is the deemed owner is complete, the Company is required under applicable accounting guidance to determine whether it can remove the capitalized construction costs incurred by the landlord and the corresponding financing lease obligation from its consolidated balance sheet by applying sale-leaseback accounting criteria.

If the sale-leaseback criteria is met, the Company would derecognize the capitalized construction costs incurred by the landlord as well as the corresponding financing lease obligation, and would apply operating lease accounting unless the lease qualified for capital lease classification. When the sale-leaseback criteria is not met due to a form of prohibited continuing involvement such as the Company not being reimbursed by the landlord for certain construction costs, the Company accounts for the transaction as a financing lease and as if it were the legal owner of the completed construction project, which is included in the Consolidated Balance Sheets as buildings and improvements within property and equipment. For such transactions, the Company depreciates the capitalized asset and accretes the related financing lease obligation using the effective interest method. Depreciation on these assets and interest on the related financing lease obligations are recognized in depreciation and amortization and interest expense, respectively, in the Company's Consolidated Statements of Operations. The Company recognizes the lease payments in such transactions as a reduction of the accreted balance of the respective financing lease. The Company determined that certain arrangements did not meet the accounting criteria for sale-leaseback accounting due to the Company's continuing involvement post-construction.

Future minimum payments due under financing lease and capital lease obligations for existing restaurants and commitments for restaurants whose development had not yet commenced as of December 25, 2018 were as follows:

(Amounts in thousands)	As of December 25, 2018
2019	$1,714
2020	1,812
2021	1,858
2022	1,887
2023	1,814
Thereafter	6,428
Total minimum lease payments	$15,513
Less imputed interest	(1,971)
Present value of future lease commitments	13,542

Less current maturities	(1,714)
Obligations under capital and financing leases, net of current maturities	$ 11,828

11. Retirement Plans

We provide two retirement benefit plans to participants. The salary-reduction plans are provided through a qualified 401(k) plan and a nonqualified deferred compensation plan. Under these plans, employees who meet minimum service requirements and elect to participate may make contributions of up to 15% of their annual salaries under the 401(k) plan subject to IRS limitations, and up to 80% under the deferred-compensation plan. We may make additional contributions at the discretion of the Board of Directors. Expenses related to the plans for the fiscal years ended December 25, 2018, December 26, 2017 and December 27, 2016 totaled $1.0 million, $1.0 million, and $1.3 million, respectively.

12. Litigation

We are 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 consolidated financial statements and that the ultimate resolution of these matters will not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

13. Stockholders' Equity

On February 27, 2018, our Board approved a new $50 million share repurchase program. We have suspended repurchases under this program, however, in order to preserve our liquidity and pursue deleveraging transactions.

Changes in the composition of Accumulated Other Comprehensive Income ("AOCI") during the year ended December 25, 2018 were as follows:

(Amounts in thousands)	Net Unrealized Gains (Losses) Related to Derivatives	Accumulated Other Comprehensive Income
Balance at December 26, 2017	$ —	$ —
Net change in fair value of derivatives, net of tax	(872)	(872)
Amounts reclassified to earnings of cash flow hedges, net of tax	243	243
Balance at December 25, 2018	$ (629)	$ (629)

14. Commitments and Contingencies

At December 25, 2018 and December 26, 2017, we had outstanding letters of credit of $1.6 million, respectively, which were drawn on our 2018 Credit Facility and 2012 Credit Facility, respectively (see Note 9, Long-Term Indebtedness). The letters of credit typically act as guarantee of payment to certain third parties in accordance with specified terms and conditions.

15. Fair Value Measurement

Under generally accepted accounting principles in the United States, we are 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 our 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.

Fair Value of Debt and Other Financial Instruments

Debt is recorded at carrying value. The fair value of long-term debt is based on market prices that generally are observable for similar liabilities at commonly quoted intervals and is considered a Level 2 fair value measurement. The estimated fair value of debt (including current portion) is $303.7 million and $24.5 million and the carrying amount is $323.8 million and $24.5 million as of December 25, 2018 and December 26, 2017, respectively.

At December 25, 2018, the carrying values of other financial instruments such as cash and cash equivalents, receivables and accounts payable approximate fair value due to their short-term nature.

Recurring Fair Value Measurements

The following tables present our financial assets and liabilities measured at fair value on a recurring basis at December 25, 2018 and December 26, 2017:

	Fair Value Measurements				
(Amounts in thousands)		December 25, 2018		December 26, 2017	
Financial assets (liabilities):	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Deferred compensation plan investments	2	$13,556	$13,556	$14,644	$14,644
Deferred compensation plan liabilities	2	$(8,059)	$(8,059)	$(11,326)	$(11,326)
Interest rate cap agreement assets (included in Other current assets)	2	1,075	1,075	—	—

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

- The measurement of the fair value of derivative assets and liabilities is based on market prices that generally are observable for similar assets and liabilities at commonly quoted intervals and is considered a Level 2 fair value measurement. Derivative assets and liabilities that have maturity dates equal to or less than twelve months from the balance sheet date are included in prepaid and other current assets and other accrued liabilities, respectively. Derivative assets and liabilities that have maturity dates greater than twelve months from the balance sheet date are included in deposits and other assets and other long-term liabilities, respectively. See Note 2 Summary of Significant Accounting Policies for additional information on our derivative instruments and related Company policies.

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Non-recurring Fair Value Measurements

During the third fiscal quarter of 2018, we incurred $2.1 million in impairment charges related to one Double Eagle and two Grille restaurants. During the fourth fiscal quarter of 2017, we incurred $22.9 million impairment charges related to one Double Eagle and four Grille locations.

The following table presents our financial assets and liabilities measured at fair value on a non-recurring basis at December 25, 2018 and December 26, 2017:

	Fair Value Measurements				
(Amounts in thousands)		December 25, 2018		December 26, 2017	
	Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-lived assets	3	$ —	$ —	$2,374	$2,374

There were no transfers among levels within the fair value hierarchy during the years ended December 25, 2018 or December 26, 2017.

16. Segment Reporting

We operate the Double Eagle, Barcelona, bartaco, 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 we do 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, Double Eagle restaurants typically have higher revenues, driven by their larger physical presence and higher average check. The Double Eagle, Barcelona, bartaco, 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.

The following table presents information about reportable segments for fiscal years 2018, 2017, and 2016:

	Fiscal Year Ended December 25, 2018					
(Amounts in thousands)	Double Eagle	Barcelona	bartaco	Grille	Corporate	Consolidated
Revenues	$182,957	$ 34,084	$40,186	$120,989	$ —	$ 378,216
Restaurant-level EBITDA	$41,841	$ 7,625	$9,869	$14,751	$ —	$ 74,086
Capital expenditures	$51,649	$ 5,591	$11,959	$17,460	$ (61)	$ 86,598
Property and equipment, gross	$158,001	$ 36,740	$50,200	$130,376	$ 3,670	$ 378,987

	Fiscal Year Ended December 26, 2017					
(Amounts in thousands)	Double Eagle	Barcelona	bartaco	Grille	Corporate	Consolidated
Revenues	$176,713	$ —	$ —	$117,114	$ —	$ 293,827
Restaurant-level EBITDA	$46,909	$ —	$ —	$15,463	$ —	$ 62,372
Capital expenditures	$17,810	$ —	$ —	$12,658	$ 2,418	$ 32,886
Property and equipment, gross	$106,514	$ —	$ —	$116,878	$ 5,490	$ 228,882

	Fiscal Year Ended December 27, 2016					
(Amounts in thousands)	Double Eagle	Barcelona	bartaco	Grille	Corporate	Consolidated
Revenues	$166,885	$ —	$ —	$106,999	$ —	$ 273,884
Restaurant-level EBITDA	$46,877	$ —	$ —	$15,881	$ —	$ 62,758
Capital expenditures	$17,284	$ —	$ —	$17,080	$ 97	$ 34,461
Property and equipment, gross	$115,889	$ —	$ —	$116,451	$ 2,426	$ 234,766

In addition to using consolidated results in evaluating our performance and allocating our resources, our chief operating decision maker uses restaurant-level EBITDA, which is not a measure defined by GAAP at both the segment and consolidated level. At the consolidated level, this non-GAAP operating measure is useful to both management and investors because it represents one means of gauging the overall profitability of our recurring and controllable core restaurant operations at a consolidated level. This measure is not, however, indicative of our overall results, nor does restaurant-level profit accrue directly to the benefit of

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stockholders, primarily due to the exclusion of corporate-level expenses. Restaurant-level EBITDA on a consolidated basis should not be considered a substitute for, or superior to, operating income (loss), which is calculated in accordance with GAAP, and the reconciliations to operating income (loss) set forth below should be carefully evaluated.

We define restaurant-level EBITDA as operating income (loss) before pre-opening costs, general and administrative costs, donations, consulting project costs, acquisition costs, reorganization severance costs, lease termination and closing costs, depreciation and amortization, impairment charges and insurance settlements. 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 costs are only included in our consolidated financial results as they are generally not specifically identifiable to individual operating segments as these costs relate to supporting all of our restaurant operations and the extension of our concepts into new markets. Donations, consulting project costs and reorganization severance costs are excluded because they are not related to the health of ongoing operations. Lease termination and closing costs, depreciation and amortization, impairment charges, and insurance settlements 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 our chief operating decision maker in allocating resources.

The following table reconciles operating (loss) income to restaurant-level EBITDA:

(Amounts in thousands)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Operating (loss) income	(22,530)	(11,918)	20,159
Pre-opening costs	9,351	2,182	3,446
General and administrative costs	39,650	26,891	23,315
Donations	335	836	—
Consulting project costs	6,420	2,786	—
Acquisition costs	11,123	—	—
Reorganization severance costs	2,202	1,072	793
Lease termination and closing costs	3,779	(2)	142
Depreciation and amortization	21,713	17,595	14,903
Impairment charges	2,115	22,930	—
Insurance settlements	(72)	—	—
Restaurant-level EBITDA	$74,086	$ 62,372	$ 62,758

17. Earnings (Loss) Per Share

Basic earnings (loss) 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. We incurred a net loss for fiscal 2018 and 2017, and therefore, diluted shares outstanding equaled basic shares outstanding. See Note 18 Stock-Based Employee Compensation. Diluted earnings per share for fiscal 2016 exclude stock options of 0.6 million, which were outstanding during the period, but were anti-dilutive. Diluted earnings per share for fiscal 2016 exclude 0.1 million of shares restricted stock, which were outstanding during the period, but were anti-dilutive.

(Amounts in thousands, except per share data)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Net (loss) income	$(76,303)	$ (11,457)	$ 17,766
Shares:			
Weighted-average common shares outstanding—basic	25,412	21,570	23,322
Effect of dilutive shares	—	—	113
Weighted-average common shares outstanding—diluted	25,412	21,570	23,435

Earnings (loss) per share—basic	$(3.00)	$ (0.53)	$ 0.76
Earnings (loss) per share—diluted	$(3.00)	$ (0.53)	$ 0.76

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18. Stock-Based Employee Compensation

2012 Long-Term Equity Incentive Plan

In connection with our initial public offering, we adopted the 2012 Plan, which allows our Board of Directors or a committee thereof 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 us. 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. Outstanding stock options vest at various periods ranging from one to four years from date of grant. Outstanding shares of restricted stock vest over periods ranging from one to four years. The 2012 Plan has 2,232,800 shares authorized for issuance under the plan. There are 467,300 shares of common stock issuable upon exercise of currently outstanding options, 1,312,952 outstanding shares of restricted stock, restricted stock units and performance stock units, which includes 200,000 performance stock units related to the CEO 2016 grant, at December 25, 2018. There are 148,626 shares available for future grants.

The following table details our total stock based compensation costs during the fiscal years ended December 25, 2018, December 26, 2017 and December 27, 2016, as well as where the costs were expensed:

(Amounts in thousands)	Fiscal Year Ended December 25, 2018	December 26, 2017	December 27, 2016
Restaurant operating expenses	$73	$ 226	$ 361
General and administrative costs	3,972	2,593	2,305
Total stock compensation cost	$4,045	$ 2,819	$ 2,666

Stock Options, Restricted Stock, Restricted Stock Units, and Performance Stock Units

The following table summarizes restricted stock, restricted stock unit, and performance stock unit activity during fiscal 2018:

(Amounts in thousands, except per share amounts)	Fiscal Year Ended December 25, 2018 Shares	Weighted average grant date fair value per share ($)	Aggregate intrinsic value ($)
Outstanding at beginning of period	498	$ 13.90	
Granted	956	9.30	
Vested	(83)	17.56	
Forfeited	(58)	16.11	
Outstanding at end of period	1,313	$ 10.22	$ 8,416

As of December 25, 2018, there was $7.9 million of total unrecognized compensation costs related to non-vested restricted stock, restricted stock units and performance stock units. This cost is expected to be recognized over a period of approximately 2.2 years.

The following table summarizes stock option activity during fiscal 2018:

(Amounts in thousands, except per share amounts)	Fiscal Year Ended December 25, 2018 Shares	Weighted average exercise price ($)	Weighted average remaining contractual term	Aggregate intrinsic value ($000's)
Outstanding at beginning of period	589	$ 18.53		
Exercised	(4)	13.00		

Forfeited	(118)	18.66			
Outstanding at end of period	467	$ 18.54	4.3 years	$	—
Options exercisable at end of period	467	$ 18.54	4.3 years	$	—

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There was a nominal intrinsic value of options exercised during fiscal 2018. A summary of the status of non-vested stock options as of December 25, 2018 and changes during fiscal 2018 is presented below:

	Fiscal Year Ended December 25, 2018	
(Amounts in thousands, except per share amounts)	Shares	Weighted average grant-date fair value per share ($)
Non-vested stock options at beginning of period	7	$ 8.93
Vested	—	—
Forfeited	(7)	8.93
Non-vested stock options at end of period	—	$ —

As of December 25, 2018, all stock options were vested, accordingly all compensation costs related to vested stock options were recognized. The total fair value of stock options vested during fiscal 2018 was $0.1 million.

We issue performance share units, or PSUs, to certain employees that represent shares potentially issuable in the future. During fiscal 2018, we granted 213,664 PSUs to our employees. The issuance of these shares is based upon our stock price reaching between $9.32 and $20.16 per share, depending on when the grant was made during the fiscal year, 30 days prior to the third anniversary of the respective grant date. During fiscal 2016, we granted 200,000 PSUs to our CEO. The issuance of these shares is based upon our stock price reaching $28.00 per share for five days consecutively no later than December 31, 2022 and is subject to post vesting holding periods. The fair value of performance share units was calculated using a Monte Carlo simulation model, which requires the use of highly subjective and complex assumptions, including the expected life of the award and the price volatility of the underlying stock.

The following table details the values from and assumptions for the Monte Carlo PSU pricing model for PSUs granted during the fiscal 2018 and 2016 that were subject to Monte Carlo valuation.

	2018	2016
Weighted average grant date fair value	$5.90	$8.98
Weighted average risk-free interest rate	2.52%	1.98%
Derived service period in years	3.0	2.2
Weighted average volatility	35.44%	34.41%
Expected dividend	—	—

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19. Quarterly Financial Information (Unaudited)

The following tables set forth certain unaudited consolidated financial information for each of the four quarters in fiscal 2018 and fiscal 2017.

	Fiscal Year Ended December 25, 2018				
	First	Second	Third	Fourth	
(Amounts in thousands, except per share data)	Quarter	Quarter	Quarter	Quarter	Total Year
Revenues	$73,346	$75,717	$105,304	$123,849	$378,216
Operating income (loss)	308	(3,012)	(13,875)	(5,951)	(22,530)
Net Income (Loss) from continuing operations	4	(1,390)	(41,205)	(7,275)	(49,866)
Net Income (Loss) from discontinued operations	396	(172)	(25,869)	(792)	(26,437)
Net income (Loss)	400	(1,562)	(67,074)	(8,067)	(76,303)
Basic income (loss) per common share:					
Continuing operations	$—	$(0.07)	$(1.49)	$(0.22)	$(1.96)
Discontinued operations	0.02	(0.01)	(0.94)	(0.02)	(1.04)
Basic income (loss) per share	$0.02	$(0.08)	$(2.43)	$(0.24)	$(3.00)
Basic weighted average shares outstanding	20,317	20,377	27,634	33,322	25,412
Diluted income (loss) per common share:					
Continuing operations	$—	$(0.07)	$(1.49)	$(0.22)	$(1.96)
Discontinued operations	0.02	(0.01)	(0.94)	(0.02)	(1.04)
Diluted income (loss) per share	$0.02	$(0.08)	$(2.43)	$(0.24)	$(3.00)
Diluted weighted average shares outstanding	20,603	20,377	27,634	33,322	25,412

	Fiscal Year Ended December 26, 2017				
	First	Second	Third	Fourth	
(Amounts in thousands, except per share data)	Quarter	Quarter	Quarter	Quarter	Total Year
Revenues	$66,104	$66,685	$60,615	$100,423	$293,827
Operating income (loss)	2,337	2,497	(2,402)	(14,350)	(11,918)
Net Income (Loss) from continuing operations	1,750	1,778	(1,928)	(2,419)	(819)
Net Income (Loss) from discontinued operations	1,560	313	152	(12,663)	(10,638)
Net income (Loss)	3,310	2,090	(1,776)	(15,082)	(11,457)
Basic income (loss) per common share:					
Continuing operations	$0.07	$0.08	$(0.09)	$(0.12)	$(0.04)
Discontinued operations	0.07	0.02	0.01	(0.61)	(0.49)
Basic income (loss) per share	$0.14	$0.10	$(0.08)	$(0.73)	$(0.53)
Basic weighted average shares outstanding	23,059	21,722	21,103	20,690	21,570
Diluted income (loss) per common share:					
Continuing operations	$0.07	$0.08	$(0.09)	$(0.12)	$(0.04)
Discontinued operations	0.07	0.01	0.01	(0.61)	(0.49)
Diluted income (loss) per share	$0.14	$0.09	$(0.08)	$(0.73)	$(0.53)
Diluted weighted average shares outstanding	23,277	22,061	21,103	20,690	21,570

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During the third fiscal quarter of 2018 we completed the acquisition Barteca for total cash consideration of $331.2 million. In connection with the completion of the Barteca Acquisition, we entered into a new credit agreement that provided in an aggregate principal amount of $390.0 million Term Loan B and senior secured revolving credit commitments in an aggregate principal amount of $50.0 million Revolving Loan, and, collectively with the term loans, 2018 Credit Facility. During the same fiscal quarter we amended our credit agreement to provide the Company with Additional Term Loans in an aggregate principal amount of $18.0 million. This amendment also amended the 2018 Credit Facility to increase the interest rate applicable to the Additional Term Loans and the existing term loans outstanding under the 2018 Credit Facility. See Note 9, Long-Term Debt for information regarding our credit facility. During the third fiscal quarter of 2018 we also completed public offering of our common stock with total proceeds of $97.8 million. All proceeds from the public offering of common stock were used to repay a portion of Term Loan B. See Note 9, Long-Term Debt.

Further, during the third fiscal quarter of 2018 we sold all of the outstanding equity interests in our Sullivan’s to Sullivan’s Holding LLC, a Delaware limited liability company and affiliate of Romano’s Macaroni Grill, for the total gross proceeds of approximately $32 million.

Lastly, during the third fiscal quarter of 2018 we incurred $2.1 million in impairment charges related to one Double Eagle and two Grille locations.

During the fourth fiscal quarter of 2017, we incurred $22.9 million in impairment charges related to one Double Eagle and four Grille locations. The decrease in the effective tax rate was primarily attributable to permanent differences as a result of goodwill impairment and TCJA which permanently reduced the maximum federal corporate income tax rate from 35% to 21% effective for tax years beginning after December 31, 2017. During the second quarter of 2017, we incurred approximately $1.1 million in reorganization severance costs.

In management’s opinion, the unaudited quarterly information shown above has been prepared on the same basis as the audited consolidated financial statements and includes all necessary adjustments that management considers necessary for a fair presentation of the unaudited quarterly results when read in conjunction with the consolidated financial statements and the accompanying notes. We believe that quarter-to-quarter comparisons of our financial results are not necessarily indicative of future performance.

20. Subsequent Event

After the close of our fiscal year ended December 25, 2018, on February 26, 2019, the Company entered into the Joinder Agreement with JPMorgan Chase Bank, N.A., as the incremental term lender and JPMorgan Chase Bank, N.A. as the administrative agent. The Joinder Agreement provided the Company with incremental term loan commitments in a principal amount equal to $25 million. The Company drew the full amount of the incremental term loans on the date of the Joinder Agreement and after giving effect to the transaction. The Company drew the full amount of the incremental term loans on the date of the Joinder Agreement and received net proceeds of approximately $23.1 million. The Company used the net proceeds of the incremental term loans to repay a portion of the outstanding amounts under its revolving credit facility. The transaction extends the maturity of a portion of the Company’s outstanding indebtedness and since the repayment does not reduce the commitments under the revolving credit facility, the transaction expanded the Company’s sources of liquidity without increasing leverage at this time.