

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 27, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35611

**Del Frisco's Restaurant Group, Inc.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

920 S. Kimball Ave., Suite 100,  
Southlake, TX  
(Address of principal executive offices)

20-8453116  
(I.R.S. Employer  
Identification No.)

76092  
(Zip code)

(817) 601-3421

(Registrant's telephone number, including area code)

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

Title of each class  
Common Stock, \$0.001 par value per share

Name of each Exchange on which registered  
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.  Yes  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.  Yes  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.  Yes  No

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act). (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of June 14, 2016, 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 \$364,070,370.

As of February 27, 2017, 23,406,042 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 27, 2016, 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" and variations of these words or similar expressions are intended to identify forward looking statements. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances, including any underlying assumptions, are forward looking statements. Although we believe the expectations reflected in any forward looking statements are reasonable, such statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward looking statements as a result of various factors. These differences can arise as a result of the risks described in this Annual Report on Form 10-K, including under Item 1A, Risk Factors, as well as other factors that may affect our business, results of operations, or financial condition. Forward looking statements in this report speak only as of the date hereof, and forward looking statements in documents incorporated by reference speak only as of the date of those documents. Unless otherwise required by law, we undertake no obligation to publicly update or revise these forward looking statements, whether as a result of new information, future events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward looking statements contained in this report will, in fact, transpire.

### 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," "our," "us," or the "Company" refer to Del Frisco's Restaurant Group, Inc. and its subsidiaries.

#### Our Company

We develop, own and operate three contemporary, high-end, complementary restaurants: Del Frisco's Double Eagle Steak House, or Del Frisco's, Sullivan's Steakhouse, or Sullivan's, and Del Frisco's Grille, or the Grille. We are a leader in the full-service steakhouse industry based on average unit volume, or AUV, and EBITDA margin. We currently operate 53 restaurants in 24 states and the District of Columbia. Each of our three restaurant concepts offers 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. Del Frisco's, Sullivan's and the Grille are positioned within the fine dining segment and are designed to appeal to both business and local dining customers. Our Del Frisco's restaurants are sited in urban locations to target customers seeking a "destination dining" experience while our Sullivan's and 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. 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 Steak House*

We believe Del Frisco's is one of the premier steakhouse concepts in the United States. The Del Frisco's brand is defined by its menu, which includes USDA Prime grade, wet-aged steaks hand-cut at the time of order and a range of other high-quality offerings, including prime 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 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 from other upscale steakhouse concepts. We currently operate 12 Del Frisco's steakhouses in 9 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. Annual AUVs per Del Frisco's restaurant for locations open the entire year were \$14.4 million for the fiscal year ended December 27, 2016. During the same period, the average check at these Del Frisco's locations was \$115.

### Sullivan's Steakhouse

Sullivan's was created in the mid-1990's as a complementary concept to Del Frisco's. The Sullivan's brand is defined by a fine dining experience at a more accessible price point, along with a vibrant atmosphere created by an open kitchen, live music and a bar area designed to be a center for social gathering and entertainment. Each Sullivan's features fine hand-selected aged steaks, fresh seafood and a broad list of custom cocktails, along with an extensive selection of award-winning wines. We currently operate 18 Sullivan's steakhouses in 14 states. These restaurants range in size from 7,000 to 11,000 square feet with seating capacity for at least 250 people. Annual AUVs per Sullivan's restaurant were \$4.4 million for the fiscal year ended December 27, 2016. During the same period, the average check at Sullivan's was \$64.

### 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 build out cost and more diverse menu. The Grille is an upscale casual concept with a menu designed to appeal more broadly to both business and casual diners that features a variety of Del Frisco's prime aged steaks, top selling signature menu items and a broad selection of the same quality wines. The Grille also offers an assortment of relatively less expensive entrees, such as flatbread pizzas, sandwiches and salads, all prepared with the same signature flavors, high quality ingredients and presentation associated with the Del Frisco's brand. We believe the ambiance of the concept appeals to a wide range of customers seeking a less formal atmosphere for their dining occasions. We currently operate 23 Grilles in 12 states and the District of Columbia. Additional Grille openings are planned over the next year and we anticipate they will range in size from 6,500 to 7,500 square feet with seating capacity for at least 200 people. Annual AUVs per Grille restaurant for locations open the entire year were \$5.1 million for the fiscal year ended December 27, 2016. During the same period, the average check at these Grille locations was \$48.

### Site Selection and Development

We believe site selection is critical for the potential success of our restaurants. 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.

For the Del Frisco's brand, we focus on sites in urban locations that allow us to easily access business clientele and customers seeking a premium dining experience. Many of our Del Frisco's restaurants are in marquee locations, including waterfront property, popular shopping districts and active business centers. We believe the broader appeal of the Sullivan's and Grille concepts allows us to target sites in both urban locations as well as more suburban locations in close proximity to affluent residential areas. Our site assessment analysis includes three primary components: customer profiling (demographics, lifestyle segmentation, spend metrics), 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 and 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 for each of our concepts to help guide our development efforts and educate our development partners. We look for the following minimum criteria in our site trade areas:

	<u>Population(a)</u>	<u>Daytime Population(a)</u>	<u>Average HH Income</u>	<u>Median Age</u>	<u>Priority Age Blocks(b)</u>	<u>Traffic Counts(c)</u>
	100,000+	150,000+	\$ 100,000+	40+	35-44; 45-54; 55-64	40,000+
	75,000+	100,000+	\$ 75,000+	35+	35-44; 45-54	25,000+
	75,000+	100,000+	\$ 75,000+	35+	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 Del Frisco's restaurants to range from 12,000 to 16,000 square feet, new Sullivan's restaurants to range from 8,000 to 9,000 square feet and new Grille restaurants to range from 6,500 to 7,500 square feet. For the opening of a new restaurant, we measure our cash investment costs net of landlord contributions and equipment financing, but including pre-opening costs. We target average cash investment costs of \$7.0 million to \$9.0 million for a new Del Frisco's and \$3.0 million to \$4.5 million for a new Sullivan's or Grille. We target a cash-on-cash return of at least 25% beginning in the third operating year across our concepts. To achieve this return, we target a ratio of third year restaurant revenues to net development costs in the range of approximately 1.25:1 to 1.50:1. We target restaurant-level EBITDA margins of between 20% and 25% for each of our three concepts.

We believe there are opportunities to open five to seven new restaurants annually, generally composed of one to two Del Frisco's and four to six Sullivan's and/or Grilles, with new openings of our Grille concept likely serving as the primary driver of new unit growth in the near term. During the fiscal year ending on December 26, 2017, we expect to open one Grille and open one Del Frisco's. 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. We are also currently evaluating the possibility of expanding the Sullivan's brand through a franchising model.

### **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 consists of one general manager, two to four assistant managers, one executive chef and two 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 required to undergo 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, director of new restaurant openings 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. Del Frisco's, Sullivan's and the Grille 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 maintain the consistent quality of our restaurants depends in part on our ability to procure food and other supplies from reliable sources in accordance with the specifications for all food products established by our corporate executive chef. We continually research and evaluate products and supplies to ensure high quality meat, seafood and other menu ingredients. Our corporate executive chef and director of purchasing work with Stock Yards, a division of U.S. Foods, Inc., our primary beef supplier, as well as secondary beef suppliers, for all beef purchases on a national level. Our director of purchasing negotiates directly with suppliers of meat, seafood and certain other food and beverage products to ensure consistent quality and freshness and to obtain competitive prices for items purchased nationally for each concept. Our strong relationships with national and regional foodservice distributors ensure that our restaurants receive a constant supply of products. Products are shipped directly to the restaurants, and we do not maintain a central product warehouse or commissary.

Our corporate executive chef and our director of purchasing also establish strict product specifications for those items purchased at the local level. We ensure competitive pricing for such supplies by requiring each restaurant's chef to obtain at least three prices for each locally sourced product from suppliers approved by the director of purchasing and submit these bids to their regional chef on a weekly basis. Pricing is then compared weekly on a national basis to ensure management for each restaurant has the most up-to-date information to help with procurement. 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. Each of our restaurants also has 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.

## **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. Del Frisco's, Sullivan's and the Grille each use specific marketing and advertising initiatives to position the concepts in the applicable segment of our industry, including ad 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 Del Frisco's and Sullivan's concepts are other upscale steakhouse chains such as 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 Grille concept also include other upscale chains such as Hillstone, 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, and our first, second and third quarters each contain 12 operating weeks with the fourth quarter containing 16 or 17 operating weeks. The fiscal years ended December 27, 2016, December 29, 2015 and December 30, 2014, which we refer to as fiscal 2016, fiscal 2015 and fiscal 2014, respectively, had 52 weeks. The following fiscal year that will end on December 26, 2017, which we refer to as fiscal 2017, will have 52 weeks.

## **Intellectual Property**

We have registered the names Del Frisco's, Double Eagle Steak House, Sullivan's, 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. An unrelated third party that operates a restaurant in Louisville, Kentucky has an indefinite right to use a specific registration of the Del Frisco's name in Jefferson County in Kentucky pursuant to a concurrent use agreement. We also agreed not to use the specific registration of the Del Frisco's name or grant others the right to use it within 50 miles of the existing restaurant operated by the third party in the territory. 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.

## Employees

As of December 27, 2016, we had 4,809 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.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Norman J. Abdallah	54	Chief Executive Officer; Director
Thomas J. Pennison, Jr.	49	Chief Financial Officer
Brandon C. Coleman	34	Chief Marketing Officer
Thomas G. Dritsas	46	Vice President of Culinary & Corporate Executive Chef
William S. Martens	44	Chief Development Officer
Ray D. Risley	51	President, Del Frisco's
April L. Scopa	49	Chief People Officer
Scott C. Smith	61	President, Sullivan's

*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 Chairman of the Board of Triple Tap Ventures, an Alamo Drafthouse Cinema franchisee operator, since 2008 and served as a member of the Board of Directors of California Pizza Kitchen, Inc., a restaurant operating company, from 2011 to April 2013.

*Thomas J. Pennison, Jr.* has served as Chief Financial Officer since November 2011. Prior to joining our company Mr. Pennison served as Chief Financial Officer for iSeatz Inc., a customized software technology company primarily serving the travel and leisure industry, from 2009 to 2011. Mr. Pennison also operated his own financial consulting firm in Louisiana from 2008 to 2009 where he provided financial and business consulting services to clients in the hospitality and other consumer and retail related industries. Prior to that, Mr. Pennison spent 12 years at Ruth's Hospitality Group, Inc., a restaurant company focused exclusively on the upscale dining segment, formerly known as Ruth's Chris Steak House, Inc., from 1996 to 2008 serving in various capacities, including Senior Vice President and Chief Financial Officer. Additionally, from 1994 to 1996, Mr. Pennison served as Assistant Corporate Controller of Casino Magic Corp., with primary responsibilities for corporate finance and SEC reporting, and from 1991 to 1994, Mr. Pennison was at the public accounting firm KPMG LLP.

*Brandon C. Coleman* has served as Chief Marketing Officer since December 2016 and is responsible for all aspects of marketing for Del Frisco's, Sullivan's and the Grille. 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. 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* 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, Sullivan's and the Grille. From 2003 to 2006, Mr. Dritsas served as Corporate Executive Chef 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.

*William S. Martens* has 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 three 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.

*Ray D. Risley* has served as President, Del Frisco's since January 2017. From December 2015 to December 2016, Mr. Risley was Senior Vice President of Operations for the Grille. From October 2013 to December 2015, Mr. Risley was Vice President of Operations for Sullivan's Steakhouse. Prior to becoming Vice President of Operations for Sullivan's, Mr. Risley served as a Regional Manager for restaurants under all three of our brands, as well as overseeing the openings of a number of new restaurants. Prior to becoming a Regional Manager, Mr. Risley served as a Regional General Manager of Del Frisco's and Sullivan's from 2005 to the end of 2007, during which time he also assumed the role of General Manager of the Del Frisco's restaurant in New York. From 2003 to 2005, Mr. Risley served as Regional Manager for all 15 Sullivan's Steakhouse restaurants. From 2000 to 2003, Mr. Risley was District General Manager for four Sullivan's Steakhouse restaurants. Mr. Risley joined Del Frisco's Restaurant Group in 1998 as the General Manager of the Sullivan's Steakhouse restaurant in Dallas. Previously, Mr. Risley held various management positions with the Morton's chain of steakhouse restaurants, including General Manager of the Beverly Hills location and with the original Spago restaurant as the General Manager.

*April L. Scopa* has served as Chief People Officer since November 2016, and previously as Vice President of People and Education since June 2011, 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 HR, 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, Sullivan's since January 2017. 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 Macaroni Grill. Prior to 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.

## **Financial Information**

The financial information that is required to be included in this Item 1, Business is set forth in Item 6, Selected Financial Data and in note 12 in the notes to the consolidated financial statements.

## **Available Information**

Our website address is [www.dfrg.com](http://www.dfrg.com), and we also host [www.delfriscos.com](http://www.delfriscos.com), [www.sullivanssteakhouse.com](http://www.sullivanssteakhouse.com) and [www.delfriscosgrille.com](http://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](http://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.

## Item 1A. Risk Factors

### **Changes in general economic conditions, including economic uncertainty, have adversely impacted our business and results of operations, 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. The recent economic uncertainty, continuing disruptions in the overall economy, including high unemployment and financial market volatility and unpredictability, and the related reduction in consumer confidence negatively affected 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, our customers, including our business clientele, may further 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 and Sullivan's concepts are 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 economic conditions persist for an extended period of time or worsen, consumers might make long-lasting changes to their discretionary spending behavior, including dining out less frequently. The ability of the U.S. economy to handle this uncertainty is likely to be affected by many national and international factors that are beyond our control. These factors, including national, regional and local politics and economic conditions, disposable consumer income and consumer confidence, also affect discretionary consumer spending. Continued uncertainty in or a worsening of the economy, generally or in a number of our markets, and our customers' reactions to these trends 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. The principal competitors for our Del Frisco's and Sullivan's concepts are other upscale steakhouse chains such as 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 Grille concept also include other upscale chains such as Hillstone, Paul Martin's American Grill and Earl's Kitchen + Bar. Our concepts also compete with additional restaurants in the broader upscale 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 quick-service 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. We believe there are opportunities to open five to seven new restaurants annually, generally composed of one to two Del Frisco's and four to six Sullivan's and/or Grilles, with new openings of our Grille concept likely serving as the primary driver of new unit growth in the near term. We are also currently evaluating the possibility of expanding the Sullivan's brand through a franchising model. In fiscal 2016, we relocated the Del Frisco's in Dallas, Texas, and opened Grilles in Long Island, New York, Nashville, Tennessee and Brentwood, Tennessee. In fiscal 2017, we expect to open one Grille and one Del Frisco's. For the opening of a new restaurant, we measure our cash investment costs net of landlord contributions and equipment financing, but including pre-opening costs. We target average cash investment costs of \$7.0 million to \$9.0 million for a new Del Frisco's and \$3.0 million to \$4.5 million for a new Sullivan's or Grille.

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:

- 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 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.

**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 continue to successfully develop our Grille concept could have a material adverse effect on our financial condition and results of operations.**

We launched our newest concept, the Grille, in the third quarter of fiscal 2011 with the opening of our New York City location, and have grown the concept to 23 locations as of the end of fiscal 2016. We believe that new openings of the Grille are likely to serve as the primary driver of new unit growth in the near term. Our ability to continue to succeed with this new concept will require significant capital expenditures and management attention and is subject to certain risks in addition to those of opening a new restaurant under one of our existing concepts, including customer acceptance of and competition to that concept. If the “ramp-up” period for our Grille restaurants and for our development of concepts in general does not meet our expectations, our operating results may be adversely affected. In addition, we are targeting restaurant-level EBITDA margins of between 20% and 25% for the Grille. However, because we face new challenges at the Grille as we enter new markets, we cannot provide any assurance that our operating margins will achieve these levels. As a result, we may need to adjust our pricing and menu offering strategies. We may not be successful enough to recoup our investments in the concept. There can be no assurance that we will be successful in further developing and growing the Grille or in developing and growing any other new concept to a point where it will become profitable or generate positive cash flow or that it will prove to be a platform for future expansion. 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 concepts or the atmosphere or menu might not appeal to them. Some Grille locations may even operate at a loss, which could have a material adverse effect on our overall operating results. In addition, opening a new restaurant concept such as a Grille in an existing market could reduce the revenue of our existing restaurants in that market. If we cannot successfully execute our growth strategies for the Grille, or if customer traffic generated by the Grille 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 Grille, 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 Grille. We believe there are opportunities to open five to seven restaurants annually, generally composed of one to two Del Frisco's and four to six Sullivan's and/or Grilles, with new openings of our Grille concept likely serving as the primary driver of new unit growth in the near term. We are also currently evaluating the possibility of expanding the Sullivan's brand through a franchising model. During fiscal 2017, we expect to open one Grille and one Del Frisco's. We typically target an average cash investment of approximately \$7.0 million to \$9.0 million per restaurant for a Del Frisco's restaurant and \$3.0 million to \$4.5 million for a Sullivan's or a Grille, in each case net of landlord contributions and equipment financing and including pre-opening costs. In addition to new openings, we also may "refresh" a number of our Del Frisco's and Sullivan's locations to, among other things, add additional seating, further grow our private dining business and add patio seating. During fiscal 2016, we completed the refresh of one Sullivan's and one Del Frisco's. Looking forward, we expect to complete two to four refreshes each year at an approximate cost of \$0.5 to \$1.0 million per location. 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 Grille, and to manage 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 strategy or maintain current levels of operating performance in our existing restaurants.

**Our New York Del Frisco's 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 location represented approximately 11%, 12% and 13% of our revenues in fiscal 2016, 2015 and 2014, respectively. Accordingly, we are susceptible to any fluctuations in the business at our New York Del Frisco's 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 foodservice 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. A 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 "Business—Intellectual Property." 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. Any shifts in consumer preferences away from the kinds of food we offer, particularly beef, whether because of dietary or other health concerns or otherwise, would make our restaurants less appealing and could reduce customer traffic and/or impose practical limits on pricing.

**Negative publicity relating to the consumption of beef, including in connection with food-borne illness, 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 and premium choice beef. Our beef costs represented approximately 32%, 34% and 34% of our food and beverage costs during fiscal 2016, 2015 and 2014, 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 and premium choice beef is particularly volatile and is subject to extreme 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 and premium choice beef, we generally expect to purchase these types of 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 and premium choice 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 and premium choice 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 all of our restaurants and has been so 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 premium choice 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.

In addition, as previously disclosed, Mr. Abdallah assumed the role as our Chief Executive Officer in November 2016. Any significant leadership change or senior management transition involves inherent risk and any failure to complete a smooth transition could hinder our strategic planning, execution and future performance. While we strive to mitigate the negative impact associated with changes to our senior management team, there may be uncertainty among investors, employees and others concerning our future direction and performance. Any disruption in our operations or uncertainty could adversely affect our business and results of operations.

**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 and Sullivan's 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. In addition, we may also be subject to lawsuits from our employees or others 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.

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 fiscal 2015, our Grille concept became subject to the requirements to post nutritional information on our menus or in our restaurants because we operated 20 Grille locations. The compliance deadline is May 5, 2017, and we intend to comply with these requirements before the deadline. 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.

#### **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 15% increase in the minimum wage on January 1, 2017 in Seattle, Washington to \$15.00 per hour or the 17% increase in minimum wage in California to \$10.50, 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 but one 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 2 to 4 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 2015, we paid \$3.1 million to exit two Grille leases, and in fiscal 2016, we paid \$0.9 million to exit one Sullivan's lease. 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.

#### **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. In recent years, many landlords have delayed or cancelled development projects (as well as renovations of existing projects) due to the instability in the credit markets and declines in consumer spending, which has reduced the number of high-quality locations available that we would consider for our new restaurants. In addition, several other tenants at retail centers in which we are located or where we have executed leases have ceased operations or, in some cases, have deferred openings or failed to open after committing to do so. These failures may lead to reduced customer traffic and a general deterioration in the surrounding retail centers in which our restaurants are located and may contribute to lower customer traffic at our restaurants. If any of the foregoing affect any of our landlords or their other retail tenants our business and results of operations may be adversely affected.

**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 13.3%, 13.2% and 13.4% of our restaurant operating expenses in fiscal 2016, 2015 and 2014, 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.**

We currently have a credit facility that provides for a revolving loan of up to \$30.0 million. There were no outstanding borrowings under this facility at December 27, 2016. 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 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 a number of significant restrictions and covenants that generally limit our ability to, among other things:

- pay dividends or purchase stock or make other restricted payments to our stockholders;
- incur additional indebtedness;
- issue guarantees;
- make investments;
- use assets as security in other transactions;
- sell assets or merge with or into other companies;
- make capital expenditures;
- enter into transactions with affiliates;
- sell equity or other ownership interests in our subsidiaries; and
- create or permit restrictions on our subsidiaries' ability to make payments to us.

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. Our credit facility also requires us to achieve specified financial and operating results and maintain compliance with specified financial ratios. Specifically, these covenants require that we have a fixed charge coverage ratio of greater than 2.00 and a leverage ratio of less than 1.00. As of December 27, 2016, we were in compliance with these tests. 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. Assuming a one percentage point increase on our base interest rate on our credit facility and a full drawdown on the credit facility, our interest expense would increase by approximately \$0.3 million over the course of 12 months.

**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 Steak House, Sullivan's, 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, including 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. 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 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 from physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, viruses, worms and other disruptive problems. Any damage or failure of our computer systems or network infrastructure that causes an interruption in our operations could subject us to litigation or actions by regulatory authorities. In addition, the majority of our restaurant sales are by credit or debit cards. Other restaurants and retailers have experienced security breaches in which credit and

debit card information of their customers has been stolen. 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 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 will be successful. 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.

**We expect to issue options, 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 27, 2016, we had awards of stock options, restricted stock and performance stock units outstanding under our equity compensation plan. In addition, we expect to offer stock options, restricted stock 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 stock options, 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 an “emerging growth company,” but will lose this status as of the end of fiscal 2017.**

We are an “emerging growth company,” as defined in the Jumpstart our Business Startups Act of 2012, or JOBS Act, and we have adopted certain exemptions from various reporting requirements that are applicable to other public companies that are not “emerging growth companies.” These exemptions include, but are not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports, proxy statements and registration statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not

previously approved. We may take advantage of these reporting exemptions until we are no longer an “emerging growth company,” which will occur as of the end of fiscal 2017. As a result of losing our “emerging growth company” status, we will be subject to certain requirements that apply to other public companies from which we have previously been exempt, including those listed above. We expect that the loss of “emerging growth company” status and compliance with the additional requirements will 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.

**If we are unable to implement and maintain the effectiveness of our internal control over financial reporting, our independent registered public accounting firm may not be able to provide an unqualified report on our internal controls.**

Pursuant to Section 404 of the Sarbanes-Oxley Act and the related rules adopted by the SEC and the Public Company Accounting Oversight Board, our management is required to report on the effectiveness of our internal control over financial reporting. In addition, once we no longer qualify as an “emerging growth company” under the JOBS Act, which will occur as of the end of fiscal 2017, we will lose the ability to rely on the exemptions related thereto discussed above, and beginning with the audit of our consolidated financial statements for fiscal 2017, our independent registered public accounting firm will be required, as part of an integrated audit, to attest to the effectiveness of our internal control over financial reporting under Section 404. An independent assessment of the effectiveness of our internal control over financial reporting could detect problems that our management’s assessment might not detect. If we conclude and, once we no longer qualify as an “emerging growth company” under the JOBS Act, our independent registered public accounting firm concludes, that our internal control over financial reporting is not effective, investor confidence and our stock price could decline.

Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis and thereby subject us to adverse regulatory consequences, including sanctions by the SEC or violations of NASDAQ listing rules, and result in a breach of the covenants under our financing arrangements. There also could be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our consolidated financial statements. Confidence in the reliability of our consolidated financial statements also could suffer if we or our independent registered public accounting firm were to report a material weakness in our internal control over financial reporting. This could materially adversely affect us and lead to a decline in the price of our common stock.

**As a public company, we incur significant costs and face demands on our management to comply with the SEC and NASDAQ requirements.**

We are required as a public company to comply with an extensive body of regulations, including provisions of the Sarbanes-Oxley Act as well as rules and regulations promulgated by the SEC and NASDAQ. These rules and regulations could result in substantial legal and financial compliance costs and make some activities more time-consuming and costly, and these costs and demands may increase after we are no longer an “emerging growth company.” In addition, we incur costs associated with our public company reporting requirements and maintaining directors’ and officers’ liability insurance. Furthermore, our management has increased demands on its time in order to ensure we comply with public company reporting requirements and the compliance requirements of the Sarbanes-Oxley Act, as well as any rules and requirements subsequently implemented by the SEC and NASDAQ.

**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.

**Item 1B. Unresolved Staff Comments**

None.

## Item 2. Properties

### Properties

We currently operate 53 restaurants across 24 states and the District of Columbia. We currently lease all of our restaurants, except for one Del Frisco's restaurant. 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. Typically, our lease terms are 5 to 15 years at initiation, with 2 to 4 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.

<u>Opening Date</u>	<u>City</u>	<u>State</u>	<u>Lease/Own</u>
<i>Del Frisco's Double Eagle Steak House</i>			
April 1996	Ft. Worth	Texas	Lease
January 1997	Denver	Colorado	Lease
March 2000	New York	New York	Lease
July 2000	Las Vegas	Nevada	Lease
May 2007	Charlotte	North Carolina	Lease
November 2007	Houston	Texas	Lease (1)
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	Own
September 2016	Dallas	Texas	Lease (2)
<i>Del Frisco's Grille</i>			
August 2011	New York	New York	Lease
November 2011	Dallas	Texas	Lease
July 2012	Washington D.C.		Lease
October 2012	Atlanta	Georgia	Lease
March 2013	Houston	Texas	Lease
July 2013	Santa Monica	California	Lease
October 2013	Fort Worth	Texas	Lease
December 2013	Chestnut Hill	Massachusetts	Lease
December 2013	Southlake	Texas	Lease
June 2014	Burlington	Massachusetts	Lease
August 2014	Irvine	California	Lease
September 2014	N. Bethesda	Maryland	Lease
November 2014	Tampa	Florida	Lease
December 2014	Pasadena	California	Lease
May 2015	The Woodlands	Texas	Lease
June 2015	Plano	Texas	Lease
August 2015	Stamford	Connecticut	Lease
September 2015	Little Rock	Arkansas	Lease
September 2015	Hoboken	New Jersey	Lease
November 2015	Cherry Creek	Colorado	Lease
June 2016	Long Island	New York	Lease
October 2016	Nashville	Tennessee	Lease
November 2016	Brentwood	Tennessee	Lease
<i>Sullivan's Steakhouse</i>			
May 1996	Austin	Texas	Lease
November 1996	Indianapolis	Indiana	Lease
October 1997	Baton Rouge	Louisiana	Lease
December 1997	Wilmington	Delaware	Lease
January 1998	Charlotte	North Carolina	Lease
July 1998	Houston	Texas	Lease (3)
September 1998	Anchorage	Alaska	Lease
September 1998	King of Prussia	Pennsylvania	Lease

<b>Opening Date</b>	<b>City</b>	<b>State</b>	<b>Lease/Own</b>
<i>Sullivan's Steakhouse (cont.)</i>			
December 1998	Naperville	Illinois	Lease
January 1999	Palm Desert	California	Lease
June 1999	Chicago	Illinois	Lease
August 1999	Raleigh	North Carolina	Lease
December 2000	Tucson	Arizona	Lease (4)
July 2007	Omaha	Nebraska	Lease
July 2008	Leawood	Kansas	Lease
November 2008	Lincolnshire	Illinois	Lease
February 2009	Baltimore	Maryland	Lease
June 2010	Seattle	Washington	Lease

- (1) Current lease term expires on November 30, 2017. We have three remaining five-year option periods available that have not yet been exercised.
- (2) The relocation of the Dallas Del Frisco's Double Eagle location was treated as a new restaurant opening.
- (3) Current lease term expires on August 31, 2017. We have one remaining five-year option period available that has not yet been exercised.
- (4) Current lease term expires on September 30, 2017. We have two remaining five-year option periods available that have not yet been exercised.

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

### **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.

### **Item 4. Mine Safety Disclosure**

Not applicable.

## 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 has been listed on the Nasdaq Global Select Market under the symbol “DFRG” and registered under Section 12 of the Exchange Act since July 27, 2012, the date of our initial public offering. The following table sets forth, for the periods indicated, the high and low sales prices per share for our common stock as quoted by the Nasdaq Global Select Market.

	<b>High</b>	<b>Low</b>
<i>2016</i>		
First Quarter (December 30, 2015 – March 22, 2016)	\$ 17.15	\$ 14.10
Second Quarter (March 23, 2016 – June 14, 2016)	\$ 16.86	\$ 14.42
Third Quarter (June 15, 2016 – September 6, 2016)	\$ 16.10	\$ 14.05
Fourth Quarter (September 7, 2016 – December 27, 2016)	\$ 18.50	\$ 13.01
<i>2015</i>		
First Quarter (December 31, 2014 – March 24, 2015)	\$ 25.95	\$ 17.87
Second Quarter (March 25, 2015 – June 16, 2015)	\$ 22.48	\$ 18.30
Third Quarter (June 17, 2015 – September 8, 2015)	\$ 19.18	\$ 13.73
Fourth Quarter (September 9, 2015 – December 29, 2015)	\$ 16.42	\$ 12.25

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 February 27, 2017, was \$16.25. As of February 27, 2017, there were three 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 October 14, 2014, our Board of Directors approved a stock repurchase program authorizing us to repurchase up to \$25 million of our common stock over the next three years. On February 15, 2017, our Board of Directors increased this authorization to \$50 million. Under this program, we may from time to time purchase our outstanding common stock in the open market at management’s discretion, subject to share price, market conditions and other factors. The common stock repurchase program does not obligate us to repurchase any dollar amount or number of shares. As of December 27, 2016, we had repurchased 492,214 shares of our common stock at an aggregate cost of approximately \$7.8 million under this program.

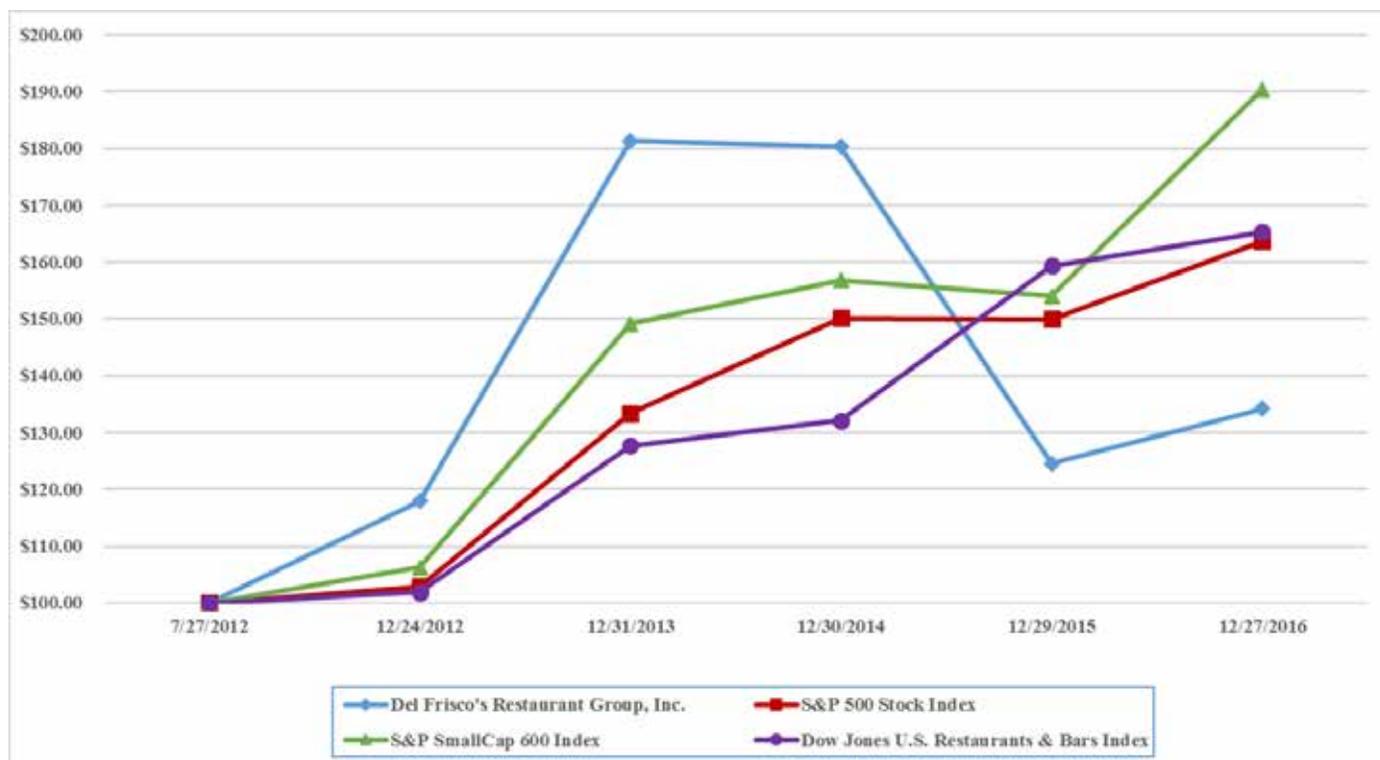
The following table provides information with respect to our purchases of shares of our common stock during the fourth quarter of fiscal 2016:

Fiscal Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
September 7 - October 4, 2016	—	\$ —	—	\$ 22,000,055
October 5 - November 1, 2016	163,517	13.90	163,517	19,726,959
November 2 - November 29, 2016	—	—	—	19,726,959
November 30 - December 27, 2016	139,670	18.26	139,670	17,177,000
Total	303,187	\$ 15.91	303,187	

## 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 July 27, 2012 and full dividend reinvestment.

**CUMULATIVE TOTAL RETURN**  
Assuming an investment of \$100 and reinvestment of dividends



	7/27/2012	12/24/2012	12/31/2013	12/30/2014	12/29/2015	12/27/2016
Del Frisco's Restaurant Group, Inc.	\$ 100.00	\$ 117.92	\$ 181.31	\$ 180.38	\$ 124.54	\$ 134.23
S&P 500 Stock Index	\$ 100.00	\$ 102.94	\$ 133.36	\$ 150.10	\$ 149.96	\$ 163.70
S&P SmallCap 600 Index	\$ 100.00	\$ 106.24	\$ 149.12	\$ 156.86	\$ 154.02	\$ 190.40
Dow Jones U.S. Restaurants & Bars Index	\$ 100.00	\$ 101.95	\$ 127.66	\$ 132.15	\$ 159.38	\$ 165.28

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.

## Item 6. Selected Financial Data

The following table sets forth certain of our historical financial data. We have derived the selected historical consolidated financial data for fiscal years 2012 through 2016 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)				
	December 27, 2016	December 29, 2015	December 30, 2014	December 31, 2013	December 25, 2012
(dollars in thousands, except per share data)					
<b>Income Statement Data:</b>					
Revenues	\$ 351,681	\$ 331,612	\$ 301,805	\$ 271,806	\$ 232,435
Costs and expenses:					
Costs of sales	99,181	95,963	90,990	82,209	71,093
Restaurant operating expenses	169,300	156,337	137,695	121,825	100,143
Marketing and advertising costs	8,260	7,745	6,169	5,663	4,682
Pre-opening costs	3,446	5,228	4,735	3,758	4,058
General and administrative	25,924	23,111	20,537	17,421	13,449
Lease termination and closing costs	1,031	1,386	—	—	—
Management and accounting fees paid to related party	—	—	—	—	1,252
Asset advisory agreement termination fee	—	—	—	—	3,000
Secondary public offering costs	—	—	5	1,024	—
Public offering transaction bonuses	—	—	—	8,355	1,462
Impairment charges	598	3,248	3,536	2,360	—
Depreciation and amortization	18,865	16,776	13,598	11,300	8,675
Operating income	25,076	21,818	24,540	17,891	24,621
Other income (expense), net:					
Interest expense-other	(70)	(77)	(113)	(72)	(2,920)
Write-off of debt issuance costs	—	—	—	—	(1,649)
Other, net	(432)	(236)	(107)	(51)	113
Income from continuing operations before income taxes	24,574	21,505	24,320	17,768	20,165
Income tax expense	6,808	5,507	7,723	5,556	5,592
Income from continuing operations	\$ 17,766	\$ 15,998	\$ 16,597	\$ 12,212	\$ 14,573
Discontinued operations, net of income tax benefit	—	—	—	—	(819)
Net income	\$ 17,766	\$ 15,998	\$ 16,597	\$ 12,212	\$ 13,754
Basic net income (loss) per common share (2):					
Continuing operations	\$ 0.76	\$ 0.68	\$ 0.71	\$ 0.51	\$ 0.71
Discontinued operations	—	—	—	—	(0.04)
Basic net income per share	\$ 0.76	\$ 0.68	\$ 0.71	\$ 0.51	\$ 0.67
Diluted net income (loss) per common share (2):					
Continuing operations	\$ 0.76	\$ 0.68	\$ 0.70	\$ 0.51	\$ 0.71
Discontinued operations	—	—	—	—	(0.04)
Diluted net income per share	\$ 0.76	\$ 0.68	\$ 0.70	\$ 0.51	\$ 0.67
Weighted average shares used in computing net income (loss) per common share (2):					
Basic	23,322,344	23,380,085	23,517,883	23,779,782	20,432,579
Diluted	23,435,275	23,517,288	23,740,318	23,852,200	20,432,579

	December 27, 2016	December 29, 2015	December 30, 2014	December 31, 2013	December 25, 2012
(dollars in thousands)					
<b>Balance Sheet Data (at end of period):</b>					
Cash and cash equivalents	\$ 14,622	\$ 5,176	\$ 3,520	\$ 13,674	\$ 10,763
Working capital (deficit) (3)	\$ (4,396)	\$ (10,390)	\$ (2,106)	\$ 8,048	\$ (755)
Total assets	\$ 370,782	\$ 346,655	\$ 319,666	\$ 288,651	\$ 258,385
Total debt	\$ —	\$ 4,500	\$ —	\$ —	\$ —
Total stockholders' equity	\$ 246,366	\$ 227,699	\$ 210,983	\$ 196,783	\$ 177,901

	Fiscal Year Ended (1)				
	December 27, 2016	December 29, 2015	December 30, 2014	December 31, 2013	December 25, 2012
(dollars in thousands)					
<b>Other Financial Data:</b>					
Net cash provided by operating activities	\$ 49,815	\$ 45,868	\$ 42,766	\$ 29,392	\$ 30,968
Net cash used in investing activities	\$ (34,168)	\$ (46,530)	\$ (47,956)	\$ (31,462)	\$ (32,173)
Net cash provided by (used in) financing activities	\$ (6,201)	\$ 2,318	\$ (4,964)	\$ 4,981	\$ (2,151)
Capital Expenditures	\$ 36,698	\$ 46,150	\$ 47,491	\$ 31,326	\$ 33,635

#### Operating Data:

Total Restaurants (at end of period)	53	50	46	40	34
Total comparable restaurants (at end of period) (3)	41	37	35	30	28
Average sales per comparable restaurant	\$ 7,229	\$ 7,396	\$ 7,563	\$ 7,622	\$ 7,457
Percentage change in comparable restaurant sales (3)	(0.8)%	(0.6)%	1.9%	1.3%	4.2%

- (1) We utilize a 52- or 53-week accounting period which ends on the last Tuesday of December. The fiscal year ended December 31, 2013 had 53 weeks. The fiscal years ended December 25, 2012, December 30, 2014, December 29, 2015 and December 27, 2016 each had 52 weeks.
- (2) Defined as total current assets minus total current liabilities.
- (3) 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.

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

### Overview

Del Frisco's Restaurant Group, Inc. develops, owns and operates three contemporary, high-end, complementary restaurants: Del Frisco's Double Eagle Steak House, Sullivan's Steakhouse, and Del Frisco's Grille. We currently operate 53 restaurants in 24 states and the District of Columbia. Of the 53 restaurants we operated as of the end of the period covered by this report, there are 12 Del Frisco's restaurants, 18 Sullivan's restaurants and 23 Grille restaurants. During fiscal 2016, we relocated a Del Frisco's in Dallas, Texas and opened Grilles in Long Island, New York, Nashville, Tennessee and Brentwood, Tennessee.

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

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

We believe there are opportunities to open five to seven restaurants annually, generally composed of one to two Del Frisco's and four to six Sullivan's and/or Grilles, with new openings of our Grille concept likely serving as the primary driver of new unit growth in the near term. During fiscal 2017, we expect to open one Grille and one Del Frisco's. We are also currently evaluating the possibility of expanding the Sullivan's brand through a franchising model. 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 41 and 37 restaurants at December 27, 2016 and December 29, 2015, respectively.
- *Average Check.* Average check is calculated by dividing total restaurant sales by customer counts for a given time period. Average check is influenced by menu prices and menu mix. Management uses this indicator to analyze trends in customers' preferences, the effectiveness of menu changes and price increases and per customer expenditures.
- *Average Unit Volume.* Average unit volume, or AUV, consists of the average sales of our restaurants over a certain period of time. This measure is calculated by dividing total restaurant sales within a period by the number of restaurants operating during the relevant period. This indicator assists management in measuring changes in customer traffic, pricing and development of our concepts.
- *Customer Counts.* Customer counts are measured by the number of entrées ordered at our restaurants over a given time period.
- *Adjusted EBITDA Margin.* Adjusted EBITDA margin represents net income before interest, income taxes and depreciation and amortization plus the sum of certain non-operating expenses, including pre-opening costs, impairment charges, lease termination and closing costs, third-party lease guarantee payments, public offering transaction bonuses and secondary public offering costs, as a percentage of our revenues. By monitoring and controlling our adjusted EBITDA margins, we can gauge the overall profitability of our company.
- *Restaurant-Level EBITDA Margin.* Restaurant-level EBITDA margin represents net income before interest expense, income taxes, other expense, net, pre-opening costs, general and administrative expenses, lease termination and closing costs, secondary public offering costs, impairment charges and depreciation and

amortization, as a percentage of our revenues. By monitoring and controlling our restaurant-level EBITDA margins, we can gauge the overall profitability of our core restaurant operations. See note 12 in the notes to our consolidated financial statements for a reconciliation of restaurant-level EBITDA to net income.

Our business is subject to seasonal fluctuations. Historically, the percentage of our annual revenues earned during the first and fourth fiscal quarters has been higher due, in part, to increased gift card redemptions and increased private dining during the year-end holiday season, respectively. In addition, we operate on a 52- or 53-week fiscal year ending the last Tuesday of each December, and our first, second and third quarters each contain 12 operating weeks with the fourth quarter containing 16 or 17 operating weeks. As many of our operating expenses have a fixed component, our operating income and operating income margin have historically varied significantly from quarter to quarter. Accordingly, results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for any year.

### **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 2016, food comprised 68% of food and beverage sales with beverage comprising the remaining 32%. 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:

- 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
- 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. We currently target pre-opening costs per restaurant at \$0.8 million for a Del Frisco's and a Grille and \$0.6 million for a Sullivan's.

*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.

## Results of Operations

The following table sets forth certain statements of income data for the periods indicated:

	December 27, 2016		Fiscal Year Ended December 29, 2015		December 30, 2014	
			(dollars in thousands)			
Revenues	\$ 351,681	100.0%	\$ 331,612	100.0%	\$ 301,805	100.0%
Costs and expenses:						
Costs of sales	99,181	28.2%	95,963	28.9%	90,990	30.1%
Restaurant operating expenses	169,300	48.1%	156,337	47.1%	137,695	45.6%
Marketing and advertising costs	8,260	2.3%	7,745	2.3%	6,169	2.0%
Pre-opening costs	3,446	1.0%	5,228	1.6%	4,735	1.6%
General and administrative costs	25,924	7.4%	23,111	7.0%	20,537	6.8%
Lease termination and closing costs	1,031	0.3%	1,386	0.4%	—	0.0%
Secondary public offering costs	—	0.0%	—	0.0%	5	0.0%
Impairment charges	598	0.2%	3,248	1.0%	3,536	1.2%
Depreciation and amortization	18,865	5.4%	16,776	5.1%	13,598	4.5%
Operating income	25,076	7.1%	21,818	6.6%	24,540	8.1%
Other income (expense), net:						
Interest, net of capitalized interest	(70)	0.0%	(77)	0.0%	(113)	0.0%
Other	(432)	-0.1%	(236)	-0.1%	(107)	0.0%
Income before income taxes	24,574	7.0%	21,505	6.5%	24,320	8.1%
Income tax expense	6,808	1.9%	5,507	1.7%	7,723	2.6%
Net income	\$ 17,766	5.1%	\$ 15,998	4.8%	\$ 16,597	5.5%

## Fiscal Year Ended December 27, 2016 (52 weeks) Compared to Fiscal Year Ended December 29, 2015 (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 27, 2016 and December 29, 2015.

	Fiscal Year Ended December 27, 2016							
	Del Frisco's		Sullivan's		Grille		Consolidated	
	(dollars in thousands)							
Revenues	\$ 166,885	100.0%	\$ 77,797	100.0%	\$ 106,999	100.0%	\$ 351,681	100.0%
Costs and expenses:								
Cost of sales	48,968	29.3%	22,862	29.4%	27,351	25.6%	99,181	28.2%
Restaurant operating expenses:								
Labor	38,253	22.9%	23,033	29.6%	35,146	32.8%	96,432	27.4%
Operating expenses	18,366	11.0%	11,641	15.0%	14,618	13.7%	44,625	12.7%
Occupancy	11,080	6.6%	5,608	7.2%	11,555	10.8%	28,243	8.0%
Restaurant operating expenses	67,699	40.6%	40,282	51.8%	61,319	57.3%	169,300	48.1%
Marketing and advertising costs	3,341	2.0%	2,471	3.2%	2,448	2.3%	8,260	2.3%
Restaurant-level EBITDA	\$ 46,877	28.1%	\$ 12,182	15.7%	\$ 15,881	14.8%	\$ 74,940	21.3%
Restaurant operating weeks	620		936		1,079		2,635	
Average weekly volume	\$ 269		\$ 83		\$ 99		\$ 133	

	Fiscal Year Ended December 29, 2015							
	Del Frisco's		Sullivan's		Grille		Consolidated	
	(dollars in thousands)							
Revenues	\$ 161,809	100.0%	\$ 78,983	100.0%	\$ 90,820	100.0%	\$ 331,612	100.0%
Costs and expenses:								
Cost of sales	48,479	30.0%	23,703	30.0%	23,781	26.2%	95,963	28.9%
Restaurant operating expenses:								
Labor	37,110	22.9%	23,107	29.3%	29,299	32.3%	89,516	27.0%
Operating expenses	17,130	10.6%	11,646	14.7%	12,546	13.8%	41,322	12.5%
Occupancy	10,447	6.5%	5,113	6.5%	9,939	10.9%	25,499	7.7%
Restaurant operating expenses	64,687	40.0%	39,866	50.5%	51,784	57.0%	156,337	47.1%
Marketing and advertising costs	2,806	1.7%	2,344	3.0%	2,595	2.9%	7,745	2.3%
Restaurant-level EBITDA	\$ 45,837	28.3%	\$ 13,070	16.5%	\$ 12,660	13.9%	\$ 71,567	21.6%
Restaurant operating weeks	591		957		936		2,484	
Average weekly volume	\$ 274		\$ 83		\$ 97		\$ 133	

*Revenues.* Consolidated revenues increased \$20.1 million, or 6.1%, to \$351.7 million in fiscal 2016 from \$331.6 million in fiscal 2015. This increase was due to 151 net additional operating weeks in fiscal 2016 resulting from three Grille openings in fiscal 2016 and the full year impact of one Del Frisco's and six Grille openings in fiscal 2015. This increase was partially offset by the closing of one Sullivan's location and two Grille locations in fiscal 2015, the temporary closing of the Dallas Del Frisco's during its relocation in fiscal 2016 and by a 0.8% decrease in total comparable restaurant sales, comprised of a 0.8% decrease in customer counts.

Del Frisco's revenues increased \$5.1 million, or 3.1%, to \$166.9 million in fiscal 2016 from \$161.8 million in fiscal 2015. This increase was primarily due to 33 additional operating weeks resulting from the full year impact of the Orlando, Florida Del Frisco's, which opened in August 2015. This increase was partially offset by the temporary closing of the Dallas Del Frisco's during its relocation in fiscal 2016 and a 1.2% decrease in total comparable restaurant sales, comprised of a 1.6% decrease in customer counts, partially offset by a 0.4% increase in average check.

Sullivan's revenues decreased \$1.2 million, or 1.5%, to \$77.8 million in fiscal 2016 from \$79.0 million in fiscal 2015. This decrease was primarily due to the closing of one Sullivan's location in May 2015, as well as a 0.2% decrease in total comparable restaurant sales, comprised of a 0.8% decrease in customer counts, partially offset by a 0.6% increase in average check.

The Grille's revenues increased \$16.2 million, or 17.8%, to \$107.0 million in fiscal 2016 from \$90.8 million in fiscal 2015. This increase was driven by 143 net additional operating weeks resulting from three Grille openings during fiscal 2016 and the full year impact of six Grille openings during fiscal 2015. This increase was partially offset by a 0.7% decrease in total comparable restaurant

sales, comprised of a 0.8% decrease in average check, partially offset by a 0.1% increase in customer counts, as well as the closure of two Grille locations in fiscal 2015.

*Cost of Sales.* Consolidated cost of sales increased \$3.2 million, or 3.4%, to \$99.2 million in fiscal 2016 from \$96.0 million in fiscal 2015. This increase was primarily due to an additional 151 net operating weeks in fiscal 2016, as discussed above. As a percentage of consolidated revenues, consolidated cost of sales decreased to 28.2% in fiscal 2016 from 28.9% in fiscal 2015.

As a percentage of revenues, Del Frisco's cost of sales decreased to 29.3% during fiscal 2016 from 30.0% in fiscal 2015. This decrease in cost of sales, as a percentage of revenues, was primarily due to lower beef costs, partially offset by higher seafood and wine costs.

As a percentage of revenues, Sullivan's cost of sales decreased to 29.4% during fiscal 2016 from 30.0% in fiscal 2015. This decrease in cost of sales, as a percentage of revenues, was primarily due to lower beef and seafood costs.

As a percentage of revenues, the Grille's cost of sales decreased to 25.6% during fiscal 2016 from 26.2% in fiscal 2015. This decrease in cost of sales, as a percentage of revenues, was primarily due to lower beef, seafood and wine costs.

*Restaurant Operating Expenses.* Consolidated restaurant operating expenses increased \$13.0 million, or 8.3%, to \$169.3 million in fiscal 2016 from \$156.3 million in fiscal 2015. This increase was primarily due to an additional 151 net operating weeks in fiscal 2016, as discussed above. As a percentage of consolidated revenues, consolidated restaurant operating expenses increased to 48.1% in fiscal 2016 from 47.1% in fiscal 2015.

As a percentage of revenues, Del Frisco's restaurant operating expenses increased to 40.6% during fiscal 2016 from 40.0% in fiscal 2015. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher occupancy costs and other restaurant operating costs.

As a percentage of revenues, Sullivan's restaurant operating expenses increased to 51.8% during fiscal 2016 from 50.5% in fiscal 2015. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher labor costs, other restaurant operating costs and occupancy costs.

As a percentage of revenues, the Grille's restaurant operating expenses increased to 57.3% during fiscal 2016 from 57.0% in fiscal 2015. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher labor costs, partially offset by lower occupancy costs and other restaurant operating expenses.

*Marketing and Advertising Costs.* Consolidated marketing and advertising costs increased \$0.5 million, or 6.6%, to \$8.3 million in fiscal 2016 from \$7.7 million in fiscal 2015. As a percentage of consolidated revenues, consolidated marketing and advertising costs remained flat at 2.3% in fiscal 2016 compared to fiscal 2015.

As a percentage of revenues, Del Frisco's marketing and advertising costs increased to 2.0% in fiscal 2016 from 1.7% in fiscal 2015. The increase in marketing and advertising costs, as a percentage of revenues, was primarily due to higher digital and print advertising, partially offset by lower broadcast media costs.

As a percentage of revenues, Sullivan's marketing and advertising costs increased to 3.2% in fiscal 2016 from 3.0% in fiscal 2015. The increase in marketing and advertising costs, as a percentage of revenues, was primarily due to higher digital and print advertising, partially offset by lower broadcast media costs.

As a percentage of revenues, the Grille's marketing and advertising costs decreased to 2.3% in fiscal 2016 from 2.9% in fiscal 2015. This decrease in marketing and advertising costs, as a percentage of revenues, was due to lower broadcast media and other advertising, partially offset by higher digital advertising and print production costs.

*Pre-opening Costs.* Pre-opening costs decreased by \$1.8 million to \$3.4 million in fiscal 2016 from \$5.2 million in fiscal 2015. One new Del Frisco's and three new Grilles were opened in fiscal 2016 compared to one new Del Frisco's and six new Grilles in fiscal 2015. The relocated Dallas Del Frisco's 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 \$2.8 million, or 12.2%, to \$25.9 million in fiscal 2016 from \$23.1 million in fiscal 2015. 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, as well as increased legal expenses and \$0.8 million in reorganization severance expenses. As a percentage of revenues, general and administrative expenses increased to 7.4% in fiscal 2016 from 7.0% in fiscal 2015. 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.

*Lease termination and closing costs.* During the fourth quarter of fiscal 2016, we decided to close the Seattle Sullivan's location by March 31, 2017. In conjunction with this anticipated closing, we incurred \$0.9 million in lease termination costs, as well as \$0.1 million in closing costs from prior year closures. In fiscal 2015, we incurred \$1.4 million in lease termination and closing costs due to the closing of two Grille locations in the fourth quarter of fiscal 2015.

*Impairment Charges.* During the fourth quarter of fiscal 2016, we determined that the carrying value of two Sullivan's locations exceeded their estimated future cash flows, due in part by our determination to close these locations, and recognized a combined \$0.6 million impairment charge. This charge was based on the difference between the carrying value of the restaurant assets and the estimated value of leasehold improvements, furniture and restaurant equipment that may be transferred to other restaurant locations. During the third quarter of fiscal 2015, we determined that the carrying value of one Grille location exceeded its estimated future cash flows and recognized a \$3.2 million impairment charge. This charge was based on the difference between the carrying value of the restaurant assets and the estimated value of furniture and restaurant equipment that may be transferred to future Grille locations.

*Depreciation and Amortization.* Depreciation and amortization increased \$2.1 million, or 12.5%, to \$18.9 million in fiscal 2016 from \$16.8 million in fiscal 2015. The increase in depreciation and amortization expense primarily resulted from new assets related to seven restaurants opened in fiscal 2015 and four restaurants opened in fiscal 2016, as well as for existing restaurants that were remodeled during fiscal 2015 and fiscal 2016.

*Interest Expense.* Interest expense decreased to \$70,000 in 2016, net of capitalized interest of \$19,000, from \$77,000 in 2015.

*Provision for Income Taxes.* The effective income tax rate was 27.7% and 25.6% in fiscal 2016 and fiscal 2015, respectively. The factors that cause the effective tax rates to vary from the federal statutory rate of 35% include the impact of FICA tip and other credits, state income taxes and certain non-deductible or non-taxable expenses. The increase in the effective tax rate was primarily attributable to increased state tax expense, and a higher taxable income without a corresponding increase in tax credits.

## Fiscal Year Ended December 29, 2015 (52 weeks) Compared to Fiscal Year Ended December 30, 2014 (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 29, 2015 and December 30, 2014.

	Fiscal Year Ended December 29, 2015							
	Del Frisco's		Sullivan's		Grille		Consolidated	
	(dollars in thousands)							
Revenues	\$ 161,809	100.0%	\$ 78,983	100.0%	\$ 90,820	100.0%	\$ 331,612	100.0%
Costs and expenses:								
Cost of sales	48,479	30.0%	23,703	30.0%	23,781	26.2%	95,963	28.9%
Restaurant operating expenses:								
Labor	37,110	22.9%	23,107	29.3%	29,299	32.3%	89,516	27.0%
Operating expenses	17,130	10.6%	11,646	14.7%	12,546	13.8%	41,322	12.5%
Occupancy	10,447	6.5%	5,113	6.5%	9,939	10.9%	25,499	7.7%
Restaurant operating expenses	64,687	40.0%	39,866	50.5%	51,784	57.0%	156,337	47.1%
Marketing and advertising costs	2,806	1.7%	2,344	3.0%	2,595	2.9%	7,745	2.3%
Restaurant-level EBITDA	\$ 45,837	28.3%	\$ 13,070	16.5%	\$ 12,660	13.9%	\$ 71,567	21.6%
Restaurant operating weeks	591		957		936		2,484	
Average weekly volume	\$ 274		\$ 83		\$ 97		\$ 133	

	Fiscal Year Ended December 30, 2014							
	Del Frisco's		Sullivan's		Grille		Consolidated	
	(dollars in thousands)							
Revenues	\$ 151,142	100.0%	\$ 80,911	100.0%	\$ 69,752	100.0%	\$ 301,805	100.0%
Costs and expenses:								
Cost of sales	47,502	31.4%	24,166	29.9%	19,322	27.7%	90,990	30.1%
Restaurant operating expenses:								
Labor	33,635	22.3%	23,184	28.7%	22,380	32.1%	79,199	26.2%
Operating expenses	15,292	10.1%	12,313	15.2%	9,295	13.3%	36,900	12.2%
Occupancy	9,348	6.2%	5,411	6.7%	6,837	9.8%	21,596	7.2%
Restaurant operating expenses	58,275	38.6%	40,908	50.6%	38,512	55.2%	137,695	45.6%
Marketing and advertising costs	2,419	1.6%	2,388	3.0%	1,362	2.0%	6,169	2.0%
Restaurant-level EBITDA	\$ 42,946	28.4%	\$ 13,449	16.6%	\$ 10,556	15.1%	\$ 66,951	22.2%
Restaurant operating weeks	534		988		641		2,163	
Average weekly volume	\$ 283		\$ 82		\$ 109		\$ 139	

*Revenues.* Consolidated revenues increased \$29.8 million, or 9.9%, to \$331.6 million in fiscal 2015 from \$301.8 million in fiscal 2014. This increase was due to 321 net additional operating weeks resulting from one Del Frisco's and six Grille openings in fiscal 2015 and the full year impact of one Del Frisco's and five Grille openings in fiscal 2014. This increase was partially offset by the closing of one Sullivan's location and two Grille locations in fiscal 2016 and by a 0.6% decrease in total comparable restaurant sales, comprised of a 2.6% decrease in customer counts, which was partially offset by a 2.0% increase in average check.

Del Frisco's revenues increased \$10.7 million, or 7.1%, to \$161.8 million in fiscal 2015 from \$151.1 million in fiscal 2014. This increase was primarily due to 57 additional operating weeks resulting from the Orlando, Florida Del Frisco's opening in August 2015 and the full year impact of the Washington, D.C. Del Frisco's, which opened in September 2014, as well as a 0.1% increase in total comparable restaurant sales, comprised of a 2.9% increase in average check, partially offset by a 2.8% decrease in customer counts.

Sullivan's revenues decreased \$1.9 million, or 2.4%, to \$79.0 million in fiscal 2015 from \$80.9 million in fiscal 2014. This decrease was primarily due to the closing of one Sullivan's location in May 2015. This decrease was partially offset by a 0.2% increase in total comparable restaurant sales, comprised of a 3.4% increase in average check, partially offset by a 3.2% decrease in customer counts.

The Grille's revenues increased \$21.1 million, or 30.2%, to \$90.8 million in fiscal 2015 from \$69.8 million in fiscal 2014. This increase was provided by 294 additional operating weeks resulting from six Grille openings during fiscal 2015 and five Grille openings during fiscal 2014. This increase was partially offset by a 4.1% decrease in total comparable restaurant sales, comprised of a 2.5% decrease in average check and a 1.6% decrease in customer counts, as well as the closure of two Grille locations in fiscal 2015.

*Cost of Sales.* Consolidated cost of sales increased \$5.0 million, or 5.5%, to \$96.0 million in fiscal 2015 from \$91.0 million in fiscal 2014. This increase was primarily due to 321 net additional operating weeks in fiscal 2015, as discussed above. As a percentage of consolidated revenues, consolidated cost of sales decreased to 28.9% in fiscal 2015 from 30.1% in fiscal 2014.

As a percentage of revenues, Del Frisco's cost of sales decreased to 30.0% during fiscal 2015 from 31.4% in fiscal 2014. This decrease in cost of sales, as a percentage of revenues, was primarily due to lower wine and protein costs, primarily for our prime beef and seafood.

As a percentage of revenues, Sullivan's cost of sales increased to 30.0% during fiscal 2015 from 29.9% in fiscal 2014. This increase in cost of sales, as a percentage of revenues, was primarily due to higher beef, liquor and wine costs, partially offset by lower seafood and dairy costs.

As a percentage of revenues, the Grille's cost of sales decreased to 26.2% during fiscal 2015 from 27.7% in fiscal 2014. The decrease in cost of sales, as a percentage of revenues, was due primarily to lower liquor, wine and protein costs, primarily for our prime beef and seafood.

*Restaurant Operating Expenses.* Consolidated restaurant operating expenses increased \$18.6 million, or 13.5%, to \$156.3 million in fiscal 2015 from \$137.7 million in fiscal 2014. This increase was primarily due to 321 net additional operating weeks in fiscal 2015, as discussed above. As a percentage of consolidated revenues, consolidated restaurant operating expenses increased to 47.1% in fiscal 2015 from 45.6% in fiscal 2014.

As a percentage of revenues, Del Frisco's restaurant operating expenses increased to 40.0% during fiscal 2015 from 38.6% in fiscal 2014. This increase in restaurant operating expenses, as a percentage of revenues, was due to higher direct labor and benefits costs, operating and occupancy costs due in part to new opening inefficiencies of the Orlando, Florida location and the comparable restaurant growth insufficient to offset increases in certain expenses.

As a percentage of revenues, Sullivan's restaurant operating expenses decreased to 50.5% during fiscal 2015 from 50.6% in fiscal 2014. This decrease in restaurant operating expenses, as a percentage of revenues, was due to lower other restaurant operating costs, related to strategic cost savings initiatives, partially offset by higher labor cost.

As a percentage of revenues, the Grille's restaurant operating expenses increased to 57.0% during fiscal 2015 from 55.2% in fiscal 2014. This increase in restaurant operating expenses, as a percentage of revenues, was due primarily to higher occupancy and new opening inefficiencies related to the six openings in fiscal 2015 and two openings in late fiscal 2014, as well as diminished operations at the two Grille locations that closed during the fourth quarter of fiscal 2015. Additionally, the decline in comparable restaurant sales resulted in deleveraging against certain fixed costs.

*Marketing and Advertising Costs.* Consolidated marketing and advertising costs increased \$1.6 million, or 25.5%, to \$7.7 million in fiscal 2015 from \$6.2 million in fiscal 2014. As a percentage of consolidated revenues, consolidated marketing and advertising costs increased to 2.3% in fiscal 2015 from 2.0% in fiscal 2014.

As a percentage of revenues, Del Frisco's marketing and advertising costs increased to 1.7% in fiscal 2015 from 1.6% in fiscal 2014. The increase in marketing and advertising costs, as a percentage of revenues, was primarily due to higher digital and outdoor advertising.

As a percentage of revenues, Sullivan's marketing and advertising costs remained flat at 3.0% in fiscal 2015 compared to fiscal 2014.

As a percentage of revenues, the Grille's marketing and advertising costs increased to 2.9% in fiscal 2015 from 2.0% in fiscal 2014. This increase in marketing and advertising costs, as a percentage of revenues, was due to higher digital, broadcast and print media spending.

*Pre-opening Costs.* Pre-opening costs increased by \$0.5 million to \$5.2 million in fiscal 2015 from \$4.7 million in fiscal 2014. One new Del Frisco's and six new Grilles were opened in fiscal 2015 compared to five new Grilles in fiscal 2014.

*General and Administrative Expenses.* General and administrative expenses increased \$2.6 million, or 12.5%, to \$23.1 million in fiscal 2015 from \$20.5 million in fiscal 2014. 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, as well as \$0.7 million in increased restaurant management training expenses. In addition, we incurred an additional \$0.3 million in non-cash

stock compensation expense in fiscal 2015 compared to fiscal 2014. These increases were partially offset by lower incentive compensation during fiscal 2015. As a percentage of revenues, general and administrative expenses increased to 7.0% in fiscal 2015 from 6.8% in fiscal 2014. 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.

*Lease Termination and Closing Costs.* In conjunction with the closing of two Grille locations in the fourth quarter of fiscal 2015, we incurred \$1.4 million in lease termination and closing costs. No such costs were incurred in fiscal 2014.

*Impairment Charges.* During the third quarter of fiscal 2015, we determined that the carrying value of one Grille location exceeded its estimated future cash flows and recognized a \$3.2 million impairment charge. This charge was based on the difference between the carrying value of the restaurant assets and the estimated value of furniture and restaurant equipment that may be transferred to future Grille locations. During the fourth quarter of fiscal 2014, we determined that the carrying value of one Grille location exceeded its estimated future cash flows and recognized a \$3.5 million impairment charge. This charge was based on the difference between the carrying value of the restaurant assets and the estimated value of furniture and restaurant equipment that may be transferred to future Grille locations.

*Depreciation and Amortization.* Depreciation and amortization increased \$3.2 million, or 23.4%, to \$16.8 million in fiscal 2015 from \$13.6 million in fiscal 2014. The increase in depreciation and amortization expense primarily resulted from new assets related to six restaurants opened in fiscal 2014 and seven restaurants opened in fiscal 2015 as well as for existing restaurants that were remodeled during fiscal 2014 and fiscal 2015.

*Interest Expense.* Interest expense decreased to \$77,000 in fiscal 2015, net of capitalized interest of \$115,000, from \$113,000 in fiscal 2014.

*Provision for Income Taxes.* The effective income tax rate was 25.6% and 31.8% in fiscal 2015 and fiscal 2014, respectively. The factors that cause the effective tax rates to vary from the federal statutory rate of 35% include the impact of the FICA tip and other credits, state income taxes and certain non-deductible or non-taxable expenses. The decrease in the effective tax rate was primarily attributable to increased tax credits against a lower taxable income and the settlement of uncertain tax positions during fiscal 2015. This decrease was partially offset by higher effective state tax rate and higher non-deductible stock compensation expense, which lowered income from continuing operations before income tax, but were not deductible for certain state and local taxes.

## 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. We regularly review acquisitions and other strategic opportunities, which may require additional debt or equity financing.

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 27, 2016, we had cash and cash equivalents of approximately \$14.6 million.

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

### Cash Flows

The following table summarizes the statement of cash flows for the fiscal years ended December 27, 2016, December 29, 2015 and December 30, 2014:

	Fiscal Year Ended		
	December 27, 2016	December 29, 2015	December 30, 2014
	(dollars in thousands)		
Net cash provided by operating activities	\$ 49,815	\$ 45,868	\$ 42,766
Net cash used in investing activities	(34,168)	(46,530)	(47,956)
Net cash (used in) provided by financing activities	(6,201)	2,318	(4,964)
Net change in cash and cash equivalents	<u>\$ 9,446</u>	<u>\$ 1,656</u>	<u>\$ (10,154)</u>

*Operating Activities.* Net cash flows provided by operating activities increased \$3.9 million during fiscal 2016 as compared to fiscal 2015, primarily due to a \$6.2 million net increase in cash related to income taxes and a \$3.4 million net increase in cash related to deferred rent obligations, partially offset by a \$5.5 million net decrease 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). Net cash flows provided by operating activities increased \$3.1 million during fiscal 2015 as compared to fiscal 2014 primarily due to a \$3.2 million increase in depreciation and amortization, as well as other net changes in certain operating assets and liabilities (as noted in the consolidated statement of cash flows). Cash flows from operating activities was \$42.8 million in fiscal 2014, consisting primarily of net income of \$16.6 million, adjustments for depreciation, amortization, deferred income taxes and other non-cash charges totaling \$19.6 million, a net increase in cash of \$3.8 million resulting from a decrease in lease incentives receivable and \$10.5 million from an increase in other liabilities and deferred rent obligations. These cash inflows were partially offset by increases in inventories, other current assets and income taxes receivable of \$7.7 million.

*Investing Activities.* 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 3 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 Del Frisco's during fiscal 2016, as well as remodel activity at existing restaurants. Net cash used in investing activities in fiscal 2015 was \$46.5 million, consisting primarily of purchases of leasehold improvements, property and equipment. These purchases were primarily related to construction of six Grilles and one Del Frisco's during fiscal 2015, as well as remodel activity at existing restaurants. Net cash used in investing activities in fiscal 2014 was \$48.0 million, consisting primarily of purchases of property and equipment. These purchases were primarily related to construction of five Grilles and one Del Frisco's during fiscal 2014, as well as the purchase of a land and building site related to a fiscal 2015 opening and remodel activity at existing restaurants.

*Financing Activities.* Net cash used in financing activities in fiscal 2016 was \$6.2 million, which was comprised of \$4.5 million in net payments toward the outstanding balance under our credit facility and \$4.8 million in share repurchases, offset by \$3.2 million in proceeds from the exercise of stock options. Net cash provided by financing activities in fiscal 2015 was \$2.3 million, which was comprised of \$4.5 million in net proceeds from borrowings on the credit facility and \$0.8 million in proceeds from the exercise of stock options, partially offset by \$3.0 million in share repurchases. Net cash used in financing activities in fiscal 2014 was \$5.0 million, which was comprised of \$6.3 million in share repurchases, partially offset by \$1.3 million in proceeds from the exercise of stock options.

## Capital Expenditures

We typically target an average cash investment of approximately \$7.0 million to \$9.0 million per restaurant for a Del Frisco's restaurant and \$3.0 million to \$4.5 million for a Sullivan's or a Grille, in each case net of landlord contributions and equipment financing and including pre-opening costs. In addition, we are currently "refreshing" a number of our Sullivan's and Del Frisco's locations to, among other things, add additional seating, private dining space and patio seating. During fiscal 2016, we completed a refresh of one Sullivan's and one Del Frisco's. Looking forward, we expect to complete two to four refreshes each year at an approximate cost of \$0.5 million to \$1.0 million per location. These capital expenditures will primarily be funded by cash flows from operations and, if necessary, by the use of our credit facility, depending upon the timing of expenditures.

## Credit Facility

On October 15, 2012, we entered into a credit facility that provides 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 modifies 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.

The credit facility contains various financial covenants, including a maximum leverage ratio of total indebtedness to EBITDA (as defined in the credit facility), and minimum fixed charge coverage ratio. Specifically, we are required to have a leverage ratio of less than 1.00 and a fixed charge coverage ratio of greater than 2.00. As of December 27, 2016, we were in compliance with each of these tests. The credit facility also contains covenants restricting certain corporate actions, including asset dispositions, acquisitions, the payment of dividends, the incurrence of indebtedness and providing financing or other transactions with affiliates.

As of December 27, 2016, there was no outstanding balance under the credit facility. Under the revolving loan commitment, we had approximately \$28.8 million of borrowings available, net of \$1.2 million in letter of credit commitments.

## Contractual Obligations

The following table summarizes our contractual obligations as of December 27, 2016:

	Total	Less than 1 year	1 - 3 years (in thousands)	3 - 5 years	More than 5 years
Operating leases	\$ 330,199	\$ 20,771	\$ 42,966	\$ 41,022	\$ 225,440
Total	\$ 330,199	\$ 20,771	\$ 42,966	\$ 41,022	\$ 225,440

## 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 15% increase in the minimum wage on January 1, 2017 in Seattle, Washington to \$15.00 per hour or the 17% increase in minimum wage in California to \$10.50. 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 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 the reporting units as the Del Frisco's and Sullivan's concepts.

The impairment evaluation for goodwill is conducted annually using a two-step process. In the first step, 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, then a second step must be completed in order to determine the amount of the goodwill impairment that should be recorded. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill in a manner similar to a purchase price allocation. The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and 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 flow 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.

The fair value of our restaurant concepts were in excess of the carrying value as of our fiscal 2016 goodwill and other intangible impairment test that was performed at year-end.

*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 2016, we recognized impairment charges of long-lived assets of \$0.6 million. This impairment charge was related to our determination that the carrying amount of long-lived assets at two Sullivan's locations exceeded their estimated undiscounted future cash flows, due in part by our determination to close these locations. The estimated fair value was based on an estimated sales price of leasehold improvements, furniture and restaurant equipment for this location.

In fiscal 2015, we recognized impairment charges of long-lived assets of \$3.2 million. This impairment charge was related to our determination that the carrying amount of long-lived assets at one Grille location exceeded its estimated undiscounted future cash flows. The estimated fair value was based on an estimated value of the furniture and equipment that we may transfer to future Grille locations.

In fiscal 2014, we recognized impairment charges of long-lived assets of \$3.5 million. This impairment charge was related to our determination that the carrying amount of long-lived assets at one Grille location exceeded its estimated undiscounted future cash flows. The estimated fair value was based on an estimated value of the furniture and equipment that we may transfer to future Grille locations.

*Leases.* We currently lease all but one of our restaurant locations. We evaluate each lease to determine its appropriate classification as an operating or capital lease for financial reporting purposes. All 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.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) which provides for 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 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.

*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.

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.

*Self-Insurance Reserves.* We maintain various insurance policies including workers’ compensation and general liability. Pursuant to those policies, we are responsible for losses up to certain limits and are required to estimate a liability that represents our ultimate exposure for aggregate losses below those limits. This liability is based on management’s estimates of the ultimate costs to be incurred to settle known claims and claims not reported as of the balance sheet date. Our estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions, and economic conditions. If actual trends, including the severity or frequency of claims, differ from our estimates, our financial results could be impacted.

## **Recent Accounting Pronouncements**

The information regarding recent accounting pronouncements materially affecting our consolidated financial statements is included in Note 2 to our consolidated financial statements in Item 15 of this Annual Report on Form 10-K.

## **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 27, 2016, we had no outstanding debt on our revolving credit facility. Assuming a full drawdown on the revolving credit facility, and holding other variables constant, such as foreign exchange rates and debt levels, a hypothetical immediate one percentage point change in interest rates would be expected to have an impact on pre-tax earnings and cash flows of approximately \$0.3 million over the course of 12 months.

### **Commodity Price Risk**

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

## **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 set forth in the Index to Financial Statements under Item 15, Exhibits and Financial Statement Schedules, 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 principal executive officer and principal 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 principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this report.

The design of any system of 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. Management, with the participation of our Chief Executive Officer and Chief Financial Officer, has assessed the effectiveness of our internal control over financial reporting as of the end of the period covered by this report based on the framework established in "Internal Control—Integrated Framework (2013 framework)", issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that our internal control over financial reporting was effective as of the end of the period covered by this report.

Our system of internal control over financial reporting was designed to provide reasonable assurance regarding the preparation and fair presentation of published financial statements in accordance with accounting principles generally accepted in the United States.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance and 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.

Because we are an “emerging growth company” under the JOBS Act, our independent registered public accounting firm, KPMG LLP, is not required to issue an attestation report on our internal control over financial reporting.

**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.

## PART III

### Item 10. Directors, Executive Officers and Corporate Governance

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 27, 2016. The information with respect to our executive officers required under this Item is set forth in Item 1, Business and incorporated herein by reference.

### 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 27, 2016.

### 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 27, 2016.

#### Equity Compensation Plans

The following table sets forth information as of December 27, 2016, with respect to our equity compensation plans under which our equity securities are authorized for issuance:

<i>Plan Category</i>	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	1,273,194	\$ 19.75	519,080
Equity compensation plans not approved by security holders	—	—	—
Total	<u>1,273,194</u>	<u>\$ 19.75</u>	<u>519,080</u>

### 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 27, 2016.

### 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 27, 2016.

## 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.

## Exhibit Index

Exhibit No.	Description	Reference
3.1	Certificate of Incorporation, filed on July 24, 2012 as Exhibit 3.1 to Amendment No. 6 to the Registrant's Registration Statement on Form S-1 (File No. 333-179141) and incorporated herein by reference.	
3.2	Bylaws, filed on June 11, 2012 as Exhibit 3.2 to Amendment No. 3 to the Registrant's Registration Statement on Form S-1 (File No. 333-179141) and incorporated herein by reference.	
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 October 16, 2012 as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 4, 2012 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.	
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 #	Executive Employment Agreement, dated February 7, 2011, by and between Mark Mednansky and Center Cut Hospitality, Inc., filed on January 24, 2012 as Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 (File No. 333-179141) and incorporated herein by reference.	
10.6 #	Executive Employment Agreement, dated October 17, 2011, by and between Thomas J. Pennison, Jr. and Center Cut Hospitality, Inc., filed on January 24, 2012 as Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (File No. 333-179141) and incorporated herein by reference.	
10.7 #	Employment Agreement, dated November 21, 2016, between Norman Abdallah and Del Frisco's Restaurant Group, Inc.	*
10.8 #	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.	
10.9 #	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.	
10.10 #	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.	
10.11	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.	
10.12	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.	
10.13	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.	
10.14#	Form of Non-Qualified Stock Option Award Agreement under the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan.	*

- |        |  |   |
|--------|--|---|
| 10.15# | Form of Incentive Stock Option Award Agreement under the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan.                  | * |
| 10.16# | Form of Restricted Stock Award Agreement under the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan.                        | * |
| 10.17# | Form of Performance-Based Restricted Stock Unit Award Agreement under the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan. | * |

<b>Exhibit No.</b>	<b>Description</b>	<b>Reference</b>
21.1	List of Subsidiaries of the Registrant.	*
23.1	Consent of KPMG LLP.	*
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.

# Denotes management compensatory plan or arrangement.

## 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/ Thomas J. Pennison, Jr.

Name: Thomas J. Pennison, Jr.

Title: Chief Financial Officer

Date: February 28, 2017

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.

<u>/s/ Norman J. Abdallah</u> Norman J. Abdallah	Chief Executive Officer and Director (Principal Executive Officer)	February 28, 2017
<u>/s/ Thomas J. Pennison, Jr.</u> Thomas J. Pennison, Jr.	Chief Financial Officer (Principal Financial and Accounting Officer)	February 28, 2017
<u>/s/ Ian R. Carter</u> Ian R. Carter	Chairman of the Board, Director	February 28, 2017
<u>/s/ Mark S. Mednansky</u> Mark S. Mednansky	Director	February 28, 2017
<u>/s/ David B. Barr</u> David B. Barr	Director	February 28, 2017
<u>/s/ Richard L. Davis</u> Richard L. Davis	Director	February 28, 2017
<u>/s/ William Lamar, Jr.</u> William Lamar, Jr.	Director	February 28, 2017

## INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders  
Del Frisco's Restaurant Group, Inc.:

We have audited the accompanying consolidated balance sheets of Del Frisco's Restaurant Group, Inc. and subsidiaries (the Company) as of December 27, 2016 and December 29, 2015, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity and cash flows for each of the years in the three-year period ended December 27, 2016. 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 conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Del Frisco's Restaurant Group, Inc. and subsidiaries as of December 27, 2016 and December 29, 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 27, 2016 in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Dallas, Texas  
February 28, 2017

**DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**  
(Dollars in thousands)

	December 27, 2016	December 29, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 14,622	\$ 5,176
Inventory	16,400	17,308
Income taxes receivable	3,599	5,487
Lease incentives receivable	4,025	2,252
Prepaid expenses	5,199	4,270
Other current assets	2,835	2,504
Total current assets	<u>46,680</u>	<u>36,997</u>
Property and equipment:		
Land	6,477	8,295
Buildings	9,460	11,162
Leasehold improvements	200,122	173,545
Furniture, fixtures, and equipment	68,123	60,948
Less accumulated depreciation	<u>(88,190)</u>	<u>(70,759)</u>
Property and equipment, net	195,992	183,191
Deferred compensation plan investments	15,054	13,955
Goodwill	75,365	75,365
Intangible assets, net	37,409	36,865
Other assets	282	282
Total assets	<u>\$ 370,782</u>	<u>\$ 346,655</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable	\$ 12,791	\$ 16,486
Sales tax payable	2,531	2,548
Accrued payroll	7,359	5,538
Deferred revenue	18,735	17,635
Other current liabilities	9,660	5,180
Total current liabilities	<u>51,076</u>	<u>47,387</u>
Long-term debt	—	4,500
Deferred compensation plan liabilities	15,212	14,083
Deferred rent obligations	37,697	34,336
Deferred income taxes	18,189	16,550
Other noncurrent liabilities	2,242	2,100
Total liabilities	<u>124,416</u>	<u>118,956</u>
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.001 par value, 10,000,000 shares authorized, no shares issued and outstanding at December 27, 2016 or December 29, 2015	—	—
Common stock, \$0.001 par value, 190,000,000 shares authorized, 24,234,909 shares issued and 23,272,274 shares outstanding at December 27, 2016 and 23,967,692 shares issued and 23,313,169 shares outstanding at December 29, 2015	24	24
Treasury stock at cost: 962,635 shares and 654,523 shares at December 27, 2016 and December 29, 2015, respectively	(17,823)	(13,000)
Additional paid in capital	143,325	137,601
Retained earnings	120,840	103,074
Total stockholders' equity	<u>246,366</u>	<u>227,699</u>
Total liabilities and stockholders' equity	<u>\$ 370,782</u>	<u>\$ 346,655</u>

See accompanying notes.

**DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Income and Comprehensive Income**  
(Dollars in thousands, except per share data)

	Fiscal Year Ended		
	December 27, 2016	December 29, 2015	December 30, 2014
Revenues	\$ 351,681	\$ 331,612	\$ 301,805
Costs and expenses:			
Costs of sales	99,181	95,963	90,990
Restaurant operating expenses	169,300	156,337	137,695
Marketing and advertising costs	8,260	7,745	6,169
Pre-opening costs	3,446	5,228	4,735
General and administrative costs	25,924	23,111	20,537
Lease termination and closing costs	1,031	1,386	—
Secondary public offering costs	—	—	5
Impairment charges	598	3,248	3,536
Depreciation and amortization	18,865	16,776	13,598
Operating income	25,076	21,818	24,540
Other income (expense), net:			
Interest, net of capitalized interest	(70)	(77)	(113)
Other	(432)	(236)	(107)
Income before income taxes	24,574	21,505	24,320
Income tax expense	6,808	5,507	7,723
Net income	\$ 17,766	\$ 15,998	\$ 16,597
Basic earnings per common share	\$ 0.76	\$ 0.68	\$ 0.71
Diluted earnings per common share	\$ 0.76	\$ 0.68	\$ 0.70
Shares used in computing earnings per common share:			
Basic	23,322,344	23,380,085	23,517,883
Diluted	23,435,275	23,517,288	23,740,318
Comprehensive income	\$ 17,766	\$ 15,998	\$ 16,597

See accompanying notes.

**DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Statement of Changes in Stockholders' Equity**  
(Dollars in thousands)

	Common Stock Shares	Par Value	Additional Paid In Capital	Treasury Stock	Retained Earnings	Total
Balance at December 31, 2013	23,626,642	\$ 24	\$ 129,961	\$ (3,681)	\$ 70,479	\$ 196,783
Net income	—	—	—	—	16,597	16,597
Share-based compensation costs	—	—	2,567	—	—	2,567
Stock option exercises, including tax effects	85,400	—	1,355	—	—	1,355
Treasury stock purchases	(268,996)	—	—	(6,319)	—	(6,319)
Balance at December 30, 2014	<u>23,443,046</u>	<u>\$ 24</u>	<u>\$ 133,883</u>	<u>\$ (10,000)</u>	<u>\$ 87,076</u>	<u>\$ 210,983</u>
Net income	—	—	—	—	15,998	15,998
Share-based compensation costs	—	—	2,900	—	—	2,900
Stock option exercises, including tax effects	59,150	—	818	—	—	818
Treasury stock purchases	(189,027)	—	—	(3,000)	—	(3,000)
Balance at December 29, 2015	<u>23,313,169</u>	<u>\$ 24</u>	<u>\$ 137,601</u>	<u>\$ (13,000)</u>	<u>\$ 103,074</u>	<u>227,699</u>
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	(303,187)	—	—	(4,823)	—	(4,823)
Balance at December 27, 2016	<u>23,272,274</u>	<u>\$ 24</u>	<u>\$ 143,325</u>	<u>\$ (17,823)</u>	<u>\$ 120,840</u>	<u>\$ 246,366</u>

See accompanying notes.

**DEL FRISCO'S RESTAURANT GROUP, INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	Fiscal Year Ended		
	December 27, 2016	December 29, 2015	December 30, 2014
<b>Cash flows from operating activities:</b>			
Net income	\$ 17,766	\$ 15,998	\$ 16,597
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	18,865	16,776	13,598
Loss on disposal of restaurant property	429	27	108
Loan cost amortization	2	8	18
Equity based compensation	2,666	2,900	2,567
Impairment charges	598	3,248	3,536
Deferred income taxes	1,575	3,495	653
Amortization of deferred lease incentives	(1,140)	(666)	(852)
Changes in operating assets and liabilities:			
Restricted cash	—	215	—
Inventory	908	(716)	(2,498)
Lease incentives receivable	2,692	5,760	3,767
Prepaid expenses and other assets	(1,497)	(2,282)	(2,154)
Accounts payable	(2,666)	2,801	3,209
Income taxes	1,888	(4,287)	(3,050)
Deferred rent obligations	2,307	(1,094)	1,970
Deferred revenue	1,100	1,919	2,733
Other liabilities	4,322	1,766	2,564
Net cash provided by operating activities	<u>49,815</u>	<u>45,868</u>	<u>42,766</u>
<b>Cash flows from investing activities:</b>			
Proceeds from sale of property and equipment	3,078	1	13
Purchase of trade name	(546)	—	—
Purchases of property and equipment	(36,698)	(46,150)	(47,491)
Other investing activities	(2)	(381)	(478)
Net cash used in investing activities	<u>(34,168)</u>	<u>(46,530)</u>	<u>(47,956)</u>
<b>Cash flows from financing activities:</b>			
Net (payments on) proceeds from revolving credit facility	(4,500)	4,500	—
Purchases of treasury stock	(4,823)	(3,000)	(6,319)
Cash settlement for share-based awards	(85)	—	—
Proceeds from exercise of stock options	3,207	818	1,355
Net cash (used in) provided by financing activities	<u>(6,201)</u>	<u>2,318</u>	<u>(4,964)</u>
Net change in cash and cash equivalents	9,446	1,656	(10,154)
Cash and cash equivalents at beginning of period	5,176	3,520	13,674
Cash and cash equivalents at end of period	<u>\$ 14,622</u>	<u>\$ 5,176</u>	<u>\$ 3,520</u>
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the year for:			
Interest	\$ 87	\$ 175	\$ 129
Income taxes	\$ 3,756	\$ 6,626	\$ 10,225
Non cash investing and financing activities:			
Capital expenditures included in accounts payable at end of period	\$ 968	\$ 1,998	\$ 511
Acquisition of trade name financed by current liabilities	\$ 100	\$ —	\$ —

See accompanying notes.

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

## Notes to Consolidated Financial Statements

### (1) Organization, Business and Basis of Presentation

#### Description of Business

Del Frisco's Restaurant Group, Inc., or the Company, is incorporated in Delaware as a corporation. We own and operate restaurants under the brand names of Del Frisco's Double Eagle Steak House, Sullivan's Steakhouse, and Del Frisco's Grille. As of December 27, 2016, we owned and operated 12 Del Frisco's, 18 Sullivan's and 23 Grille restaurants. During fiscal 2016, we relocated one Del Frisco's in Dallas, Texas and opened Grilles in Long Island, New York, Nashville, Tennessee and Brentwood, Tennessee.

### (2) Summary of Significant Accounting Policies

#### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. 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 2016, 2015 and 2014 included 52 weeks of operations.

#### 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 one supplier during fiscal 2016, 2015 and 2014. 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. Cash and cash equivalents are carried at cost, which approximates fair value.

#### 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 27, 2016 have variable interest rates that reflect currently available terms and conditions for similar debt.

#### 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 market.

#### Property and Equipment

Property and equipment are stated at cost. Maintenance, repairs, and renewals that do not enhance the value of or increase the lives of the assets are expensed as incurred. Buildings are depreciated using the straight-line method over their estimated useful lives of 20 to 25 years. Leasehold improvements are amortized using the straight-line method over the lesser of the estimated useful lives of the assets of 20 years or the expected term of the lease, including cancelable optional renewal periods when failure to exercise such renewal options would result in an economic penalty to us. Furniture, fixtures, and equipment are depreciated using the straight-line method over three to seven years, which are the estimated useful lives of the assets.

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 \$19,000, \$115,000 and \$0 for the fiscal years ended December 27, 2016, December 29, 2015 and December 30, 2014, respectively.

### **Operating Leases**

We lease all but one of our restaurants under operating leases. The majority of our leases 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 cancelable 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 Steak House" and "Sullivan's Steakhouse," both of which have indefinite lives and, accordingly, are not subject to amortization. The trade names are used in the advertising and marketing of the restaurants and are widely recognized and accepted by consumers in their respective markets for providing its customers an enjoyable fine-dining experience. 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. See Note 3 for additional information.

The impairment evaluation for goodwill is conducted annually using a two-step process. In the first step, the fair value of each reporting unit is compared to the carrying amount of the reporting unit, including goodwill. The estimated fair value of the reporting unit is generally determined using discounted 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, then a second step must be completed in order to determine the amount of the goodwill impairment that should be recorded. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities, other than goodwill, in a manner similar to a purchase price allocation. If the resulting implied fair value of the goodwill that results from the application of this second step is less than the carrying amount of the goodwill, an impairment charge is recorded for the difference. Currently, we define the reporting units as the Del Frisco's and Sullivan's concepts. We perform its annual impairment test as of its 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 flow 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.

## **Loan Costs**

Loan costs are stated at cost and amortized using the effective interest method over the life of the related loan.

## **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 undiscounted future cash flows is less than the carrying value of the asset, an impairment loss 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 fiscal 2016, we determined that the carrying amount of two of our Sullivan's restaurants were most likely not recoverable. Therefore, we recorded a non-cash impairment charge of \$0.6 million, which represents the difference between the carrying value of the restaurant assets and the estimated value of leasehold improvements, furniture and restaurant equipment that may be transferred to other restaurant locations. This amount is included in impairment charges in the consolidated statements of income and comprehensive income.

During fiscal 2015, we determined that the carrying amount of one of our Grille restaurants was most likely not recoverable. Therefore, we recorded a non-cash impairment charge of \$3.2 million, which represents the difference between the carrying value of the restaurant assets and the estimated value of furniture and restaurant equipment that may be transferred to future Grille locations. This amount is included in impairment charges in the consolidated statements of income and comprehensive income.

During fiscal 2014, we determined that the carrying amount of one of our Grille restaurants was most likely not recoverable. Therefore, we recorded a non-cash impairment charge of \$3.5 million, which represents the difference between the carrying value of the restaurant assets and the estimated value of furniture and restaurant equipment that may be transferred to future Grille locations. This amount is included in impairment charges in the consolidated statements of income and comprehensive income.

## **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 ultimate expected liability for both claims incurred and on an 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.

## **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.

## Advertising Costs

Advertising costs are expensed as incurred. Advertising expense for the fiscal years ended December 27, 2016, December 29, 2015 and December 30, 2014 was \$8.3 million, \$7.7 million, and \$6.2 million, respectively.

## Revenue Recognition

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. We have deemed gift card breakage income immaterial for fiscal years 2016, 2015 and 2014, and it is included in revenues in the consolidated statements of income and comprehensive income. 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.

## 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 2016 presentation.

## Recently Issued Accounting Standards

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers which will supersede ASC Topic 605, Revenue Recognition. In August 2015, the FASB deferred the effective date of this new standard by one year. The FASB later issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606) – Principal versus Agent Considerations, in March 2016, ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606) – Identifying Performance Obligations and Licensing, in April 2016, ASU 2016-12, Revenue from Contracts with Customers (Topic 606) – Narrow-Scope Improvements and Practical Expedients, in May 2016, and ASU 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, in December 2016, all of which further clarified aspects of Topic 606. A core principle of the new guidance is that an entity should measure revenue in connection with its sale of goods and services to a customer based on an amount that depicts the consideration to which the entity expects to be entitled in exchange for each of those goods and services. For a contract that involves more than one performance obligation, the entity must (a) determine or, if necessary, estimate the standalone selling price at inception of the contract for the distinct goods or services underlying each performance obligation and (b) allocate the transaction price to each performance obligation on the basis of the relative standalone selling prices. In addition, under the new guidance, an entity should recognize revenue when (or as) it satisfies each performance obligation under the contract by transferring the promised good or service to the customer. A good or service is deemed transferred when (or as) the customer obtains control of that good or service. The new standard permits the use of either the retrospective or cumulative effect transition method. For public companies, this amendment is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. Early application is permitted, but no earlier than fiscal years beginning after December 16, 2016. While we have not yet selected a transition method nor determined the effect of the new standard on our consolidated financial statements, through our assessment of these ASUs, we have identified that the primary items affected by these ASUs are our loyalty program liability and the breakage income associated with our gift card program. See the revenue recognition section of this footnote for a description of the accounting policy related to our gift card and loyalty programs.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (ASU 2016-02). ASU 2016-02 is intended to improve the reporting of leasing transactions to provide users of financial statements with more decision-useful information. ASU 2016-02 will require organizations that lease assets to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. We are currently assessing the potential impact of ASU 2016-02 on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718) – Improvements to Employee Share-Based Payment Accounting. The FASB is issuing this ASU as part of its Simplification Initiative. The amendments in this ASU affect all entities that issue share-based payment awards to their employees. The areas for simplification in this ASU involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification

of awards as either equity or liability and classification on the statement of cash flows. Specifically, all excess tax benefits and tax deficiencies should be recognized as income tax expense or benefit in the income statement. The tax effects of exercised or vested awards should be treated as discrete items in the reporting period in which they occur. An entity also should recognize excess tax benefits regardless of whether the benefit reduces taxes payable in the current period. Excess tax benefits should be classified along with other income tax cash flows as an operating activity. An entity can make an entity-wide accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. The threshold to qualify for equity classifications permits withholding up to the maximum statutory tax rates in the applicable jurisdiction. Cash paid by an employer when directly withholding shares for tax-withholding purposes should be classified as a financing activity. For public business entities, the amendments in this ASU are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. We are adopting this ASU on December 28, 2016. While we do not expect this ASU to have a material impact on our consolidated financial statements, it will introduce an additional element of volatility in our effective tax rate.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 230) – 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 are effective for financial statements issued for annual periods beginning after December 15, 2017, including interim periods within those annual periods, and early application is permitted. We currently assessing the impact of this ASU on our consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) - 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 is effective for public business entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017, and early application is permitted. We are currently assessing the impact of the adoption of this ASU on our consolidated financial statements.

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 application is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We are currently assessing the impact of the adoption of this ASU on our consolidated financial statements.

### (3) Intangible Assets and Goodwill

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

	December 27, 2016	December 29, 2015
	(in thousands)	
Amortized intangible assets:		
Gross carrying amount:		
Favorable leasehold interests	\$ 848	\$ 848
Licensing and development rights	1,077	1,077
Other	540	494
	<u>2,465</u>	<u>2,419</u>
Accumulated amortization:		
Favorable leasehold interests	(848)	(840)
Licensing and development rights	(663)	(597)
Other	(133)	(105)
	<u>(1,644)</u>	<u>(1,542)</u>
Net amortized intangible assets	<u>821</u>	<u>877</u>
Unamortized intangible assets:		
Goodwill	75,365	75,365
Trade names	35,493	34,893
Liquor license permits	1,095	1,095
	<u>\$ 111,953</u>	<u>\$ 111,353</u>

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 7 to 9 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.

Goodwill is allocated to the Del Frisco's and Sullivan's reporting units, as follows: \$43.9 million and \$31.4 million at December 27, 2016 and December 29, 2015, respectively.

We have estimated that annual amortization expense will amount to approximately \$0.1 million for 2017, \$0.1 million for 2018, \$0.1 million for 2019, \$0.1 million for 2020, and \$0.1 million for 2021.

Amortization expense was \$0.1 million, \$0.1 million, and \$0.2 million for the years ended December 27, 2016, December 29, 2015 and December 30, 2014, respectively.

We performed the annual test for impairment of goodwill and indefinite-lived intangible assets and concluded that no impairment existed as of December 27, 2016, December 29, 2015 or December 30, 2014, and accordingly, no impairment losses were recorded.

On February 1, 2012, we entered into an agreement to terminate a license agreement with the licensee operating a Del Frisco's in Orlando, Florida effective June 1, 2013. The original licensing agreement has been amortized over the expected term of the agreement, and has a remaining book value of \$0.5 million as of December 27, 2016. Under the agreement, in exchange for us surrendering our right to receive licensing fees from January 1, 2012 through June 1, 2013 and making a one-time \$25,000 payment to the licensee, we received the rights to open and operate any of our restaurants in the three counties that make up the Orlando metropolitan area no earlier than January 1, 2015. We accounted for this as an exchange of non-monetary assets, for which we have concluded that the fair value of the asset surrendered approximates its book value and therefore no gain or loss has been recorded on the exchange. To determine the fair value of the asset surrendered, we utilized a discounted cash flow method that applied a discount rate of 11.5%, our weighted-average cost of capital, to the future estimated cash flows to be received over the remaining term, including expected renewal, of the license agreement.

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 payments totaling \$0.5 million in 2016, with the remaining \$0.1 million to be paid on August 1, 2017. This intangible asset has been recorded as a trade name with an indefinite life.

### (4) Leases

We lease certain facilities under noncancelable operating leases with terms expiring between 2017 and 2036. 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 \$22.9 million, \$21.1 million, and \$18.7 million, including contingent rentals of approximately \$3.6 million, \$3.6 million, and \$3.9 million for the fiscal years ended December 27, 2016, December 29, 2015 and December 30, 2014, respectively.

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 27, 2016, future minimum rentals for each of the next five years and thereafter, and in total, are as follows:

	(in thousands)	
2017	\$	20,771
2018		21,431
2019		21,535
2020		20,751
2021		20,271
Thereafter		225,440
Total minimum lease payments	\$	<u>330,199</u>

## (5) Income Taxes

The components of income tax expense consist of the following:

	Fiscal Year Ended		
	December 27, 2016	December 29, 2015	December 30, 2014
	(in thousands)		
Current tax expense (benefit):			
Federal	\$ 2,768	\$ 894	\$ 3,689
State	2,465	1,117	3,381
Total current tax expense	<u>5,233</u>	2,011	7,070
Deferred tax expense (benefit):			
Federal	1,381	1,722	932
State	194	1,774	(279)
Total deferred tax expense (benefit)	<u>1,575</u>	3,496	653
Total income tax expense	<u>\$ 6,808</u>	<u>\$ 5,507</u>	<u>\$ 7,723</u>

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

	Fiscal Year Ended					
	December 27, 2016		December 29, 2015		December 30, 2014	
	(dollars in thousands)					
Income tax expense at federal statutory rate	\$ 8,602	35%	\$ 7,527	35%	\$ 8,486	35%
State tax expense, net	1,835	7%	1,215	6%	1,872	8%
FICA tip and work opportunity credits	(3,519)	-14%	(3,428)	-16%	(3,007)	-12%
Other items, net	(110)	0%	193	1%	372	1%
Total income tax expense	<u>\$ 6,808</u>	<u>28%</u>	<u>\$ 5,507</u>	<u>26%</u>	<u>\$ 7,723</u>	<u>32%</u>

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 liabilities are presented below:

	December 27, 2016	December 29, 2015
	(in thousands)	
Deferred tax assets:		
Equity-based compensation	\$ 1,507	\$ 1,471
Accrued liabilities	5,212	4,333
Deferred compensation	5,620	5,643
Deferred rent liabilities	14,480	11,986
Tax Credits carryover	—	819
Intangible Assets – Pre-opening Costs	3,073	3,413
Other	172	105
Total deferred tax assets	<u>30,064</u>	<u>27,770</u>
Deferred tax liabilities:		
Property and equipment	32,001	28,048
Intangible assets	15,968	15,988
Other	284	284
Total deferred tax liabilities	<u>48,253</u>	<u>44,320</u>
Net deferred tax liabilities	<u>\$ (18,189)</u>	<u>\$ (16,550)</u>

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 2012 remain open to examination by the major taxing jurisdictions to which we is subject.

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

	Fiscal Year Ended		
	December 27, 2016	December 29, 2015	December 30, 2014
	(in thousands)		
Balance at beginning of year	\$ 40	\$ 1,386	\$ 1,386
Additions resulting from current year positions	—	—	—
Additions for positions taken in prior years	—	—	—
Payments made for settlements	—	(944)	—
Expiration of statute of limitations	(24)	(402)	—
Balance at end of year	<u>\$ 16</u>	<u>\$ 40</u>	<u>\$ 1,386</u>

We do not believe our uncertain tax positions will change materially during the next 12 months. As of December 29, 2015 and December 27, 2016, accrued interest and penalties included in the consolidated balance sheets totaled \$0.3 million. 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.

## (6) Long-Term Debt

On October 15, 2012, we entered into a credit facility that provides 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. The credit facility contains 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 credit facility also contains 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 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. All other major terms remain unchanged. 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.

We were in compliance with the financial debt covenants as of December 27, 2016. As of December 27, 2016, there was no outstanding balance on our revolving credit facility. Under the revolving loan commitment, we had approximately \$28.8 million of borrowings available, net of \$1.2 million in letter of credit commitments.

## (7) 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 (the Plans). Under the 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 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 27, 2016, December 29, 2015 and December 30, 2014 totaled \$1.3 million, \$2.2 million, and \$1.7 million, respectively.

## (8) Litigation

We are involved, from time to time, in litigation arising in the ordinary course of business. We believe the outcome of such matters will not have a material adverse effect on our consolidated financial position or results of operations.

## (9) Stockholders' Equity

On October 14, 2014, our Board of Directors approved a stock repurchase program authorizing us to repurchase up to \$25 million of our common stock over the next three years. On February 15, 2017, our Board of Directors increased this authorization to \$50 million. Under this program, we can from time to time purchase outstanding common stock in the open market at management's discretion, subject to share price, market conditions and other factors. The common stock repurchase program does not obligate us to repurchase any dollar amount or number of shares. As of December 27, 2016, we had repurchased 492,214 shares of our common stock at an aggregate cost of approximately \$7.8 million under this program.

## (10) Commitments and Contingencies

At December 27, 2016, we had outstanding letters of credit of \$1.2 million on our revolving credit facility. The letters of credit typically act as guarantee of payment to certain third parties in accordance with specified terms and conditions.

## (11) 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.

The following tables present our financial assets and liabilities measured at fair value on a recurring basis at December 27, 2016 and December 29, 2015:

	Level	Fair Value Measurements	
		December 27, 2016	December 29, 2015
		(in thousands)	
Deferred compensation plan investments	2	\$ 15,054	\$ 13,955
Deferred compensation plan liabilities	2	\$ (15,212)	\$ (14,083)

There were no transfers among levels within the fair value hierarchy during the years ended December 27, 2016 or December 29, 2015. The carrying value of our cash and cash equivalents and restricted cash approximate fair value because of their short term

nature, and are classified within Level 1 of the fair value hierarchy. The carrying value of our accounts payable approximate fair value because of their short term nature, and are classified within Level 2 of the fair value hierarchy. The fair value of the credit facility at December 27, 2016 approximated its carrying value since it is a variable rate credit facility (Level 2).

We had no derivative instruments at December 27, 2016 or December 29, 2015.

## (12) Segment Reporting

We operate the Del Frisco's, Sullivan's, and Del Frisco's Grille brands as operating segments. The concepts operate solely in the U.S. within the full-service dining industry, providing similar products to similar customers. Sales to 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 concepts also possess similar economic characteristics, resulting in similar long-term expected financial performance characteristics. However, as Del Frisco's restaurants typically have higher revenues, driven by their larger physical presence and higher check average, the Del Frisco's, Sullivan's, and Del Frisco's 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 2016, 2015, and 2014:

	Fiscal Year Ended December 27, 2016				
	Del Frisco's	Sullivan's	Grille	Corporate	Consolidated
	(in thousands)				
Revenues	\$ 166,885	\$ 77,797	\$ 106,999	\$ —	\$ 351,681
Restaurant-level EBITDA	\$ 46,877	\$ 12,182	\$ 15,881	\$ —	\$ 74,940
Capital expenditures	\$ 17,284	\$ 2,489	\$ 17,080	\$ 97	\$ 36,950
Property and equipment	\$ 115,889	\$ 49,416	\$ 116,451	\$ 2,426	\$ 284,182

	Fiscal Year Ended December 29, 2015				
	Del Frisco's	Sullivan's	Grille	Corporate	Consolidated
	(in thousands)				
Revenues	\$ 161,809	\$ 78,983	\$ 90,820	\$ —	\$ 331,612
Restaurant-level EBITDA	\$ 45,837	\$ 13,070	\$ 12,660	\$ —	\$ 71,567
Capital expenditures	\$ 11,646	\$ 3,644	\$ 32,717	\$ 102	\$ 48,109
Property and equipment	\$ 104,508	\$ 47,578	\$ 99,371	\$ 2,493	\$ 253,950

	Fiscal Year Ended December 30, 2014				
	Del Frisco's	Sullivan's	Grille	Corporate	Consolidated
	(in thousands)				
Revenues	\$ 151,142	\$ 80,911	\$ 69,752	\$ —	\$ 301,805
Restaurant-level EBITDA	\$ 42,946	\$ 13,449	\$ 10,556	\$ —	\$ 66,951
Capital expenditures	\$ 19,839	\$ 3,452	\$ 24,219	\$ 492	\$ 48,002
Property and equipment	\$ 93,267	\$ 45,848	\$ 72,066	\$ 2,261	\$ 213,442

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. Restaurant-level EBITDA is defined as net income before interest expense, income taxes, other expense, net, pre-opening costs, general and administrative expenses, lease termination and closing costs, secondary public offering costs, impairment charges and depreciation and amortization. Pre-opening costs are excluded because they vary in timing and magnitude and are not related to the health of ongoing operations. General and administrative expenses are excluded 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. Lease termination and closing costs, impairment charges and depreciation and amortization are excluded because they are not ongoing controllable cash expenses and they are not related to the health of ongoing operations. Property and equipment is the only balance sheet measure used by our chief operating decision maker in allocating resources. See the table below for a reconciliation of net income to restaurant-level EBITDA.

	Fiscal Year Ended		
	December 27, 2016	December 29, 2015	December 30, 2014
	(in thousands)		
Net income	\$ 17,766	\$ 15,998	\$ 16,597
Income tax expense	6,808	5,507	7,723
Net income before income taxes	24,574	21,505	24,320
Interest expense, net of capitalized interest	70	77	113
Other	432	236	107
Operating income	25,076	21,818	24,540
Pre-opening costs	3,446	5,228	4,735
General and administrative costs	25,924	23,111	20,537
Lease termination and closing costs	1,031	1,386	—
Secondary public offering costs	—	—	5
Impairment charges	598	3,248	3,536
Depreciation and amortization	18,865	16,776	13,598
Restaurant-level EBITDA	<u>\$ 74,940</u>	<u>\$ 71,567</u>	<u>\$ 66,951</u>

### (13) Earnings Per Share

Basic earnings per share (EPS) data is computed based on the weighted average number of shares of common stock outstanding during the period. Diluted EPS data is computed based on the weighted average number of shares of common stock outstanding, including all potentially issuable shares of common stock. Diluted earnings per share for fiscal 2016, 2015, and 2014 exclude stock options of 632,565, 728,604 and 716,335, respectively, which were outstanding during the period, but were anti-dilutive. Diluted earnings per share for fiscal 2016 exclude restricted stock shares of 106,726, which were outstanding during the period, but were anti-dilutive.

	Fiscal Year Ended		
	December 27, 2016	December 29, 2015	December 30, 2014
	(dollars in thousands, except per share data)		
Net income	<u>\$ 17,766</u>	<u>\$ 15,998</u>	<u>\$ 16,597</u>
Shares:			
Weighted average number of common shares outstanding	23,322,344	23,380,085	23,517,883
Dilutive shares	112,931	137,203	222,435
Total Diluted Shares	<u>23,435,275</u>	<u>23,517,288</u>	<u>23,740,318</u>
Basic earnings per common share	<u>\$ 0.76</u>	<u>\$ 0.68</u>	<u>\$ 0.71</u>
Diluted earnings per common share	<u>\$ 0.76</u>	<u>\$ 0.68</u>	<u>\$ 0.70</u>

### (14) Stock-Based Employee Compensation

#### 2012 Long-Term Equity Incentive Plan

In connection with the IPO, 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 927,675 shares of

common stock issuable upon exercise of currently outstanding options, 145,519 outstanding shares of restricted stock, and 200,000 outstanding performance stock units at December 27, 2016. There are 519,080 shares available for future grants.

The following table details our total stock based compensation costs during the fiscal years ended December 27, 2016, December 29, 2015 and December 30, 2014, as well as where the costs were expensed:

	Fiscal Year Ended		
	December 27, 2016	December 29, 2015	December 30, 2014
	(in thousands)		
Restaurant operating expenses	\$ 361	\$ 468	\$ 442
General and administrative costs	2,305	2,432	2,125
Total stock compensation cost	<u>\$ 2,666</u>	<u>\$ 2,900</u>	<u>\$ 2,567</u>

The following table summarizes restricted stock activity during fiscal 2016:

	Fiscal Year Ended December 27, 2016		
	Shares	Weighted average grant date fair value	Aggregate intrinsic value (\$000's)
Outstanding at beginning of period	90,379	\$ 19.96	
Granted	154,957	16.54	
Vested	(38,701)	19.72	
Forfeited	(61,116)	17.22	
Outstanding at end of period	<u>145,519</u>	<u>\$ 17.55</u>	<u>\$ 2,539</u>

As of December 27, 2016, there was \$1.7 million of total unrecognized compensation cost related to non-vested restricted stock. This cost is expected to be recognized over a period of approximately 2.7 years.

The following table summarizes stock option activity during fiscal 2016:

	Fiscal Year Ended December 27, 2016			
	Shares	Weighted average exercise price	Weighted average remaining contractual term	Aggregate intrinsic value (\$000's)
Outstanding at beginning of period	1,221,100	\$ 17.44		
Exercised	(228,800)	13.00		
Forfeited	(64,625)	20.50		
Outstanding at end of period	<u>927,675</u>	<u>\$ 18.33</u>	<u>6.2 years</u>	<u>\$ 1,455</u>
Options exercisable at end of period	<u>776,050</u>	<u>\$ 17.76</u>	<u>6.1 years</u>	<u>\$ 1,448</u>

The intrinsic value of options exercised during fiscal 2016 was \$1.1 million. A summary of the status of non-vested stock options as of December 27, 2016 and changes during fiscal 2016 is presented below:

	Fiscal Year Ended December 27, 2016	
	Shares	Weighted average grant-date fair value
Non-vested stock options at beginning of period	506,500	\$ 7.25
Vested	(316,250)	6.60
Forfeited	(38,625)	7.92
Non-vested stock options at end of period	<u>151,625</u>	<u>\$ 8.44</u>

As of December 27, 2016, there was \$0.7 million of total unrecognized compensation cost related to non-vested stock options. This cost is expected to be recognized over a period of approximately 0.7 years. The total fair value of stock options vested during fiscal 2016 was \$2.1 million.

We issue performance share units, or PSUs, to certain employees that represent shares potentially issuable in the future. 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 consecutive days 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, the price volatility of the underlying stock and a blended illiquidity discount of 16.9%. The following table summarizes performance stock unit activity during fiscal 2016:

	Fiscal Year Ended December 27, 2016		
	Shares	Weighted average grant date fair value	Aggregate intrinsic value (\$000's)
Outstanding at beginning of period	—	\$ —	
Granted	200,000	8.98	
Outstanding at end of period	200,000	\$ 8.98	\$ 1,892

The expense recognized each period is dependent on our estimate of the number of shares that will ultimately be issued. As of December 27, 2016 there was \$1.7 million of total unrecognized compensation cost related to non-vested performance stock units. This cost is expected to be recognized over a period of approximately 2.1 years.

The following table details the values from and assumptions for the Monte Carlo PSU pricing model for PSUs granted during the fiscal 2016.

	2016
Weighted average grant date fair value	\$8.98
Weighted average risk-free interest rate	1.98%
Derived service period	2.2 years
Weighted average volatility	34.41%
Expected dividend	—

#### (15) Quarterly Financial Information (Unaudited)

The following tables set forth certain unaudited consolidated financial information for each of the four quarters in fiscal 2016 and fiscal 2015.

	Fiscal Year Ended December 27, 2016				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(in thousands, except per share data)				
Revenues	\$ 81,194	\$ 79,916	\$ 71,407	\$ 119,164	\$ 351,681
Operating income	\$ 7,879	\$ 6,325	\$ 1,118	\$ 9,754	\$ 25,076
Net income	\$ 5,411	\$ 4,444	\$ 786	\$ 7,125	\$ 17,766
Basic income per common share	\$ 0.23	\$ 0.19	\$ 0.03	\$ 0.31	\$ 0.76
Basic weighted average shares outstanding	23,315	23,350	23,354	23,282	23,322
Diluted income per common share	\$ 0.23	\$ 0.19	\$ 0.03	\$ 0.30	\$ 0.76
Diluted weighted average shares outstanding	23,398	23,437	23,431	23,415	23,435

	Fiscal Year Ended December 29, 2015				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total Year
	(in thousands, except per share data)				
Revenues	\$ 75,102	\$ 73,776	\$ 68,629	\$ 114,105	\$ 331,612
Operating income (loss)	\$ 7,800	\$ 5,494	\$ (2,080)	\$ 10,604	\$ 21,818
Net income (loss)	\$ 5,394	\$ 3,713	\$ (1,035)	\$ 7,926	\$ 15,998
Basic income (loss) per common share	\$ 0.23	\$ 0.16	\$ (0.04)	\$ 0.34	\$ 0.68
Basic weighted average shares outstanding	23,443	23,446	23,361	23,298	23,380
Diluted income (loss) per common share	\$ 0.23	\$ 0.16	\$ (0.04)	\$ 0.34	\$ 0.68
Diluted weighted average shares outstanding	23,596	23,672	23,361	23,308	23,517

During the fourth fiscal quarter of 2016, we incurred \$0.6 in million impairment charges related to two Sullivan's locations, \$0.9 million in lease termination costs associated with one Sullivan's location and \$0.8 million in reorganization severance costs. In the third fiscal quarter of 2016, we incurred \$0.4 million in expenses to settle an easement claim related to the sale of the previous Dallas, Texas Del Frisco's location.

During the third fiscal quarter of 2015, we incurred a \$3.2 million impairment charge related to one Grille location. During the fourth fiscal quarter of 2015, we incurred a \$1.4 million charge related to the lease termination and closing costs associated with the closure of two Grille locations.

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.

**DEL FRISCO'S RESTAURANT GROUP, INC.  
GRANT NOTICE FOR 2012 STOCK INCENTIVE PLAN  
NONQUALIFIED STOCK OPTIONS**

FOR GOOD AND VALUABLE CONSIDERATION, Del Frisco's Restaurant Group, Inc. (the "Company"), hereby grants to Participant named below the nonqualified stock option (the "Option") to purchase any part or all of the number of shares of its common stock, par value \$0.001 per share (the "Common Stock"), that are covered by this Option, as specified below, at the Exercise Price per share specified below and upon the terms and subject to the conditions set forth in this Grant Notice, the Del Frisco's Restaurant Group 2012 Stock Incentive Plan (the "Plan") and the Standard Terms and Conditions (the "Standard Terms and Conditions") promulgated under such Plan, each as amended from time to time. This Option is granted pursuant to the Plan and is subject to and qualified in its entirety by the Standard Terms and Conditions.

Name of Participant:	
Grant Date:	
Number of Shares of Common Stock covered by Option:	
Exercise Price Per Share:	\$_____
Expiration Date:	
Vesting Schedule:	

This Option is not intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended. By accepting this Grant Notice, Participant acknowledges that he or she has received and read, and agrees that this Option shall be subject to, the terms of this Grant Notice, the Plan and the Standard Terms and Conditions.

DEL FRISCO'S RESTAURANT GROUP,  
INC.

By \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Participant Signature

Address (please print):  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**DEL FRISCO'S RESTAURANT GROUP, INC.  
STANDARD TERMS AND CONDITIONS FOR  
NONQUALIFIED STOCK OPTIONS**

These Standard Terms and Conditions apply to the Options granted pursuant to the Del Frisco's Restaurant Group 2012 Stock Incentive Plan (the "Plan"), which are identified as nonqualified stock options and are evidenced by a Grant Notice or an action of the Administrator that specifically refers to these Standard Terms and Conditions. In addition to these Terms and Conditions, the Option shall be subject to the terms of the Plan, which are incorporated into these Standard Terms and Conditions by this reference. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan.

**1. Terms of Option**

Del Frisco's Restaurant Group, Inc. (the "Company"), has granted to the Participant named in the Grant Notice provided to said Participant herewith (the "Grant Notice") a nonqualified stock option (the "Option") to purchase up to the number of shares of the Company's common stock, par value \$0.001 per share (the "Common Stock"), set forth in the Grant Notice. The exercise price per share and the other terms and subject to the conditions of the Option are set forth in the Grant Notice, these Standard Terms and Conditions (as amended from time to time), and the Plan. For purposes of these Standard Terms and Conditions and the Grant Notice, any reference to the Company shall include a reference to any Subsidiary.

**2. Nonqualified Stock Option**

The Option is not intended to be an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") and will be interpreted accordingly.

**3. Exercise of Option**

The Option shall not be exercisable as of the Grant Date set forth in the Grant Notice. After the Grant Date, to the extent not previously exercised, and subject to termination or acceleration as provided in these Standard Terms and Conditions and the Plan, the Option shall be exercisable only to the extent it becomes vested, as described in the Grant Notice or the terms of the Plan, to purchase up to that number of shares of Common Stock as set forth in the Grant Notice, provided that (except as set forth in Section 4(a) below) the Participant remains employed with the Company and does not experience a Termination of Employment. The vesting period and/or exercisability of an Option may be adjusted by the Administrator to reflect the decreased level of employment during any period in which the Participant is on an approved leave of absence or is employed on a less than full time basis.

To exercise the Option (or any part thereof), the Participant shall deliver to the Company a "Notice of Exercise" in a form specified by the Administrator, specifying the number of whole shares of Common Stock the Participant wishes to purchase and how the Participant's shares of Common Stock should be registered (in the Participant's name only or in the Participant's and the Participant's spouse's names as community property or as joint tenants with right of survivorship).

The exercise price (the “Exercise Price”) of the Option is set forth in the Grant Notice. The Company shall not be obligated to issue any shares of Common Stock until the Participant shall have paid the total Exercise Price for that number of shares of Common Stock. The Exercise Price may be paid in Common Stock, cash or a combination thereof, including an irrevocable commitment by a broker to pay over such amount from a sale of the Common Stock issuable under the Option, the delivery of previously owned Common Stock, withholding of shares of Common Stock deliverable upon exercise of the Option (but only to the extent share withholding is made available to the Participant by the Company), or in such other manners as may be permitted by the Administrator.

Fractional shares may not be exercised. Shares of Common Stock will be issued as soon as practical after exercise. Notwithstanding the above, the Company shall not be obligated to deliver any shares of Common Stock during any period when the Company determines that the exercisability of the Option or the delivery of shares of Common Stock hereunder would violate any federal, state or other applicable laws.

#### **4. Expiration of Option**

The Option shall expire and cease to be exercisable as of the earlier of (i) the Expiration Date set forth in the Grant Notice or (ii) the date specified below in connection with the Participant’s Termination of Employment:

(a) If the Participant’s Termination of Employment is by reason of death, Disability or Retirement, the Participant (or the Participant’s estate, beneficiary or legal representative) may exercise the Option (regardless of whether then vested or exercisable) until the date that is twelve (12) months following the date of such Termination of Employment.

(b) If the Participant’s Termination of Employment is for any reason other than death, Disability, Retirement or Cause, the Participant may exercise any portion of the Option that is vested and exercisable at the time of such Termination of Employment until the date that is three (3) months following the date of such Termination of Employment. Any portion of the Option that is not vested and exercisable at the time of such Termination of Employment (after taking into account any accelerated vesting under Section 12 of the Plan or any other agreement between the Participant and the Company shall be forfeited and canceled as of the date of such Termination of Employment.

(c) If the Participant’s Termination of Employment is by the Company for Cause, the entire Option, whether or not then vested and exercisable, shall be immediately forfeited and canceled as of the date of such Termination of Employment.

#### **5. Restrictions on Resales of Shares Acquired Pursuant to Option Exercise**

The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any shares of Common Stock issued as a result of the exercise of the Option, including without limitation (a) restrictions under an insider trading policy, (b) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant

and other optionholders and (c) restrictions as to the use of a specified brokerage firm for such resales or other transfers.

## **6. Income Taxes**

The Company shall not deliver shares of Common Stock in respect of the exercise of any Option unless and until the Participant has made arrangements satisfactory to the Administrator to satisfy applicable withholding tax obligations. Unless the Participant pays the withholding tax obligations to the Company by cash or check in connection with the exercise of the Option (including an irrevocable commitment by a broker to pay over such amount from a sale of the Common Stock issuable under the Option), withholding may be effected, at the Company's option, withholding Common Stock issuable in connection with the exercise of the Option (provided that shares of Common Stock may be withheld only to the extent that such withholding will not result in adverse accounting treatment for the Company). The Participant acknowledges that the Company shall have the right to deduct any taxes required to be withheld by law in connection with the exercise of the Option from any amounts payable by it to the Participant (including, without limitation, future cash wages).

## **7. Non-Transferability of Option**

Except as permitted by the Administrator or as permitted under the Plan, the Participant may not assign or transfer the Option to anyone other than by will or the laws of descent and distribution and the Option shall be exercisable only by the Participant during his or her lifetime. The Company may cancel the Participant's Option if the Participant attempts to assign or transfer it in a manner inconsistent with this Section 7.

## **8. Other Agreements Superseded**

The Grant Notice, these Standard Terms and Conditions and the Plan constitute the entire understanding between the Participant and the Company regarding the Option. Any prior agreements, commitments or negotiations concerning the Option are superseded.

## **9. Limitation of Interest in Shares Subject to Option**

Neither the Participant (individually or as a member of a group) nor any beneficiary or other person claiming under or through the Participant shall have any right, title, interest, or privilege in or to any shares of Common Stock allocated or reserved for the purpose of the Plan or subject to the Grant Notice or these Standard Terms and Conditions except as to such shares of Common Stock, if any, as shall have been issued to such person upon exercise of the Option or any part of it. Nothing in the Plan, in the Grant Notice, these Standard Terms and Conditions or any other instrument executed pursuant to the Plan shall confer upon the Participant any right to continue in the Company's employ or service nor limit in any way the Company's right to terminate the Participant's employment at any time for any reason.

## **10. No Liability of Company**

The Company and any affiliate which is in existence or hereafter comes into existence shall not be liable to the Participant or any other person as to: (a) the non-issuance or sale of

shares of Common Stock as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares hereunder; and (b) any tax consequence expected, but not realized, by the Participant or other person due to the receipt, exercise or settlement of any Option granted hereunder.

## **11. General**

(a) In the event that any provision of these Standard Terms and Conditions is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of these Standard Terms and Conditions shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision.

(b) The headings preceding the text of the sections hereof are inserted solely for convenience of reference, and shall not constitute a part of these Standard Terms and Conditions, nor shall they affect its meaning, construction or effect.

(c) These Standard Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and their respective permitted heirs, beneficiaries, successors and assigns.

(d) These Standard Terms and Conditions shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to principles of conflicts of law.

(e) In the event of any conflict between the Grant Notice, these Standard Terms and Conditions and the Plan, the Grant Notice and these Standard Terms and Conditions shall control. In the event of any conflict between the Grant Notice and these Standard Terms and Conditions, the Grant Notice shall control.

(f) All questions arising under the Plan or under these Standard Terms and Conditions shall be decided by the Administrator in its total and absolute discretion.

(g) Notwithstanding anything herein or in the Plan to the contrary, no adjustments to the Option and/or any of the terms hereof shall be made pursuant to Section 12 of the Plan or otherwise in connection with the transactions to be consummated subsequent to Grant Date but prior to the consummation of the Company's initial public offering.

## **12. Electronic Delivery**

By executing the Grant Notice, the Participant hereby consents to the delivery of information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the Subsidiaries, the Plan, the Option and the Common Stock via Company web site or other electronic delivery.

**DEL FRISCO'S RESTAURANT GROUP, INC.  
GRANT NOTICE FOR 2012 STOCK INCENTIVE PLAN  
INCENTIVE STOCK OPTIONS**

FOR GOOD AND VALUABLE CONSIDERATION, Del Frisco's Restaurant Group, Inc. (the "Company"), hereby grants to Participant named below the incentive stock option (the "Option") to purchase any part or all of the number of shares of its common stock, par value \$0.001 per share (the "Common Stock"), that are covered by this Option, as specified below, at the Exercise Price per share specified below and upon the terms and subject to the conditions set forth in this Grant Notice, the Del Frisco's Restaurant Group 2012 Stock Incentive Plan (the "Plan") and the Standard Terms and Conditions (the "Standard Terms and Conditions") promulgated under such Plan, each as amended from time to time. This Option is granted pursuant to the Plan and is subject to and qualified in its entirety by the Standard Terms and Conditions.

Name of Participant:	
Grant Date:	
Number of Shares of Common Stock covered by Option:	
Exercise Price Per Share:	\$_____
Expiration Date:	
Vesting Schedule:	

This Option is intended to qualify as an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended. By accepting this Grant Notice, Participant acknowledges that he or she has received and read, and agrees that this Option shall be subject to, the terms of this Grant Notice, the Plan and the Standard Terms and Conditions.

DEL FRISCO'S RESTAURANT GROUP,  
INC.

By \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Participant Signature

Address (please print):  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# **DEL FRISCO'S RESTAURANT GROUP, INC. STANDARD TERMS AND CONDITIONS FOR INCENTIVE STOCK OPTIONS**

These Standard Terms and Conditions apply to the Options granted pursuant to the Del Frisco's Restaurant Group 2012 Stock Incentive Plan (the "Plan"), which are identified as incentive stock options and are evidenced by a Grant Notice or an action of the Administrator that specifically refers to these Standard Terms and Conditions. In addition to these Terms and Conditions, the Option shall be subject to the terms of the Plan, which are incorporated into these Standard Terms and Conditions by this reference. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan.

## **1. Terms of Option**

Del Frisco's Restaurant Group, Inc. (the "Company"), has granted to the Participant named in the Grant Notice provided to said Participant herewith (the "Grant Notice") an incentive stock option (the "Option") to purchase up to the number of shares of the Company's common stock, par value \$0.001 per share (the "Common Stock"), set forth in the Grant Notice. The exercise price per share and the other terms and subject to the conditions of the Option are set forth in the Grant Notice, these Standard Terms and Conditions (as amended from time to time), and the Plan. For purposes of these Standard Terms and Conditions and the Grant Notice, any reference to the Company shall include a reference to any Subsidiary.

## **2. Incentive Stock Option**

The Option is intended to be an incentive stock option under Section 422 of the Internal Revenue Code of 1986, as amended (the "Code") and will be interpreted accordingly. Section 422 of the Code provides, among other things, that the Participant shall not be taxed upon the exercise of a stock option that qualifies as an incentive stock option provided the Participant does not dispose of the shares of Common Stock acquired upon exercise of such option until the later of two years after such option is granted to the Participant and one year after such option is exercised. Notwithstanding anything to the contrary herein, Section 422 of the Code provides that incentive stock options (including, possibly, the Option) shall not be treated as incentive stock options if and to the extent that the aggregate fair market value of shares of Common Stock (determined as of the time of grant) with respect to which such incentive stock options are exercisable for the first time by the Participant during any calendar year (under all plans of the Company and its subsidiaries) exceeds \$100,000, taking options into account in the order in which they were granted. Thus, if and to the extent that any shares of Common Stock issued under a portion of the Option exceeds the foregoing \$100,000 limitation, such shares shall not be treated as issued under an incentive stock option pursuant to Section 422 of the Code.

## **3. Exercise of Option**

The Option shall not be exercisable as of the Grant Date set forth in the Grant Notice. After the Grant Date, to the extent not previously exercised, and subject to termination or acceleration as provided in these Standard Terms and Conditions and the Plan, the Option shall be exercisable only to the extent it becomes vested, as described in the Grant Notice or the terms

of the Plan, to purchase up to that number of shares of Common Stock as set forth in the Grant Notice, provided that (except as set forth in Section 4(a) below) the Participant remains employed with the Company and does not experience a Termination of Employment. The vesting period and/or exercisability of an Option may be adjusted by the Administrator to reflect the decreased level of employment during any period in which the Participant is on an approved leave of absence or is employed on a less than full time basis.

To exercise the Option (or any part thereof), the Participant shall deliver to the Company a "Notice of Exercise" in a form specified by the Administrator, specifying the number of whole shares of Common Stock the Participant wishes to purchase and how the Participant's shares of Common Stock should be registered (in the Participant's name only or in the Participant's and the Participant's spouse's names as community property or as joint tenants with right of survivorship).

The exercise price (the "Exercise Price") of the Option is set forth in the Grant Notice. The Company shall not be obligated to issue any shares of Common Stock until the Participant shall have paid the total Exercise Price for that number of shares of Common Stock. The Exercise Price may be paid in Common Stock, cash or a combination thereof, including an irrevocable commitment by a broker to pay over such amount from a sale of the Common Stock issuable under the Option, the delivery of previously owned Common Stock, withholding of shares of Common Stock deliverable upon exercise of the Option (but only to the extent share withholding is made available to the Participant by the Company), or in such other manners as may be permitted by the Administrator.

Fractional shares may not be exercised. Shares of Common Stock will be issued as soon as practical after exercise. Notwithstanding the above, the Company shall not be obligated to deliver any shares of Common Stock during any period when the Company determines that the exercisability of the Option or the delivery of shares of Common Stock hereunder would violate any federal, state or other applicable laws.

#### **4. Expiration of Option**

The Option shall expire and cease to be exercisable as of the earlier of (i) the Expiration Date set forth in the Grant Notice or (ii) the date specified below in connection with the Participant's Termination of Employment:

(a) If the Participant's Termination of Employment is by reason of death, Disability or Retirement, the Participant (or the Participant's estate, beneficiary or legal representative) may exercise the Option (regardless of whether then vested or exercisable) until the date that is twelve (12) months following the date of such Termination of Employment.

(b) If the Participant's Termination of Employment is for any reason other than death, Disability, Retirement or Cause, the Participant may exercise any portion of the Option that is vested and exercisable at the time of such Termination of Employment until the date that is three (3) months following the date of such Termination of Employment. Any portion of the Option that is not vested and exercisable at the time of such Termination of Employment (after taking into account any accelerated vesting under Section 12 of the Plan or any other agreement

between the Participant and the Company shall be forfeited and canceled as of the date of such Termination of Employment.

(c) If the Participant's Termination of Employment is by the Company for Cause, the entire Option, whether or not then vested and exercisable, shall be immediately forfeited and canceled as of the date of such Termination of Employment.

## **5. Restrictions on Resales of Shares Acquired Pursuant to Option Exercise**

The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any shares of Common Stock issued as a result of the exercise of the Option, including without limitation (a) restrictions under an insider trading policy, (b) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant and other optionholders and (c) restrictions as to the use of a specified brokerage firm for such resales or other transfers.

## **6. Income Taxes**

To the extent required by applicable federal, state, local or foreign law, the Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise by reason of an Option exercise or disposition of shares issued as a result of an Option exercise. The Company shall not be required to issue shares or to recognize the exercise or disposition of such shares until such obligations are satisfied.

## **7. Non-Transferability of Option**

Except as permitted by the Administrator or as permitted under the Plan, the Participant may not assign or transfer the Option to anyone other than by will or the laws of descent and distribution and the Option shall be exercisable only by the Participant during his or her lifetime. The Company may cancel the Participant's Option if the Participant attempts to assign or transfer it in a manner inconsistent with this Section 7.

## **8. Other Agreements Superseded**

The Grant Notice, these Standard Terms and Conditions and the Plan constitute the entire understanding between the Participant and the Company regarding the Option. Any prior agreements, commitments or negotiations concerning the Option are superseded.

## **9. Limitation of Interest in Shares Subject to Option**

Neither the Participant (individually or as a member of a group) nor any beneficiary or other person claiming under or through the Participant shall have any right, title, interest, or privilege in or to any shares of Common Stock allocated or reserved for the purpose of the Plan or subject to the Grant Notice or these Standard Terms and Conditions except as to such shares of Common Stock, if any, as shall have been issued to such person upon exercise of the Option or any part of it. Nothing in the Plan, in the Grant Notice, these Standard Terms and Conditions or any other instrument executed pursuant to the Plan shall confer upon the Participant any right

to continue in the Company's employ or service nor limit in any way the Company's right to terminate the Participant's employment at any time for any reason.

## **10. No Liability of Company**

The Company and any affiliate which is in existence or hereafter comes into existence shall not be liable to the Participant or any other person as to: (a) the non-issuance or sale of shares of Common Stock as to which the Company has been unable to obtain from any regulatory body having jurisdiction the authority deemed by the Company's counsel to be necessary to the lawful issuance and sale of any shares hereunder; and (b) any tax consequence expected, but not realized, by the Participant or other person due to the receipt, exercise or settlement of any Option granted hereunder.

## **11. General**

(a) In the event that any provision of these Standard Terms and Conditions is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of these Standard Terms and Conditions shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision.

(b) The headings preceding the text of the sections hereof are inserted solely for convenience of reference, and shall not constitute a part of these Standard Terms and Conditions, nor shall they affect its meaning, construction or effect.

(c) These Standard Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and their respective permitted heirs, beneficiaries, successors and assigns.

(d) These Standard Terms and Conditions shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to principles of conflicts of law.

(e) In the event of any conflict between the Grant Notice, these Standard Terms and Conditions and the Plan, the Grant Notice and these Standard Terms and Conditions shall control. In the event of any conflict between the Grant Notice and these Standard Terms and Conditions, the Grant Notice shall control.

(f) All questions arising under the Plan or under these Standard Terms and Conditions shall be decided by the Administrator in its total and absolute discretion.

(g) Notwithstanding anything herein or in the Plan to the contrary, no adjustments to the Option and/or any of the terms hereof shall be made pursuant to Section 12 of the Plan or otherwise in connection with the transactions to be consummated subsequent to Grant Date but prior to the consummation of the Company's initial public offering.

## **12. Electronic Delivery**

By executing the Grant Notice, the Participant hereby consents to the delivery of information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the Subsidiaries, the Plan, the Option and the Common Stock via Company web site or other electronic delivery.

**DEL FRISCO'S RESTAURANT GROUP, INC.  
GRANT NOTICE FOR 2012 LONG-TERM INCENTIVE PLAN  
RESTRICTED STOCK AWARD**

FOR GOOD AND VALUABLE CONSIDERATION, Del Frisco's Restaurant Group, Inc. (the "Company"), hereby grants to Participant named below the number of restricted shares of the Company's common stock, par value \$0.001 (the "Common Stock") specified below (the "Award"), upon the terms and subject to the conditions set forth in this Grant Notice, the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan (the "Plan") and the Standard Terms and Conditions (the "Standard Terms and Conditions") promulgated under such Plan, each as amended from time to time. This Award is granted pursuant to the Plan and is subject to and qualified in its entirety by the Standard Terms and Conditions.

Name of Participant:	
Grant Date:	
Number of shares of restricted stock:	
Vesting Schedule/Performance Requirements:	

By accepting this Grant Notice, Participant acknowledges that he or she has received and read, and agrees that this Award shall be subject to, the terms of this Grant Notice, the Plan and the Standard Terms and Conditions.

DEL FRISCO'S RESTAURANT GROUP,  
INC.

By \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Participant Signature

Address (please print):  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

# **DEL FRISCO'S RESTAURANT GROUP, INC. STANDARD TERMS AND CONDITIONS FOR RESTRICTED STOCK**

These Standard Terms and Conditions apply to the Award of restricted stock granted pursuant to the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan (the "Plan"), which are evidenced by a Grant Notice or an action of the Administrator that specifically refers to these Standard Terms and Conditions. In addition to these Terms and Conditions, the restricted stock shall be subject to the terms of the Plan, which are incorporated into these Standard Terms and Conditions by this reference. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan.

## **1. TERMS OF RESTRICTED STOCK**

Del Frisco's Restaurant Group, Inc. (the "Company"), has granted to the Participant named in the Grant Notice provided to said Participant herewith (the "Grant Notice") an award of a number of restricted shares (the "Award" or the "Restricted Stock") of the Company's common stock, par value \$0.001 (the "Common Stock") specified in the Grant Notice. The Award is subject to the conditions set forth in the Grant Notice, these Standard Terms and Conditions, and the Plan, each as amended from time to time. For purposes of these Standard Terms and Conditions and the Grant Notice, any reference to the Company shall include a reference to any Subsidiary.

## **2. VESTING OF RESTRICTED STOCK**

The Award shall not be vested as of the Grant Date set forth in the Grant Notice and shall be forfeitable unless and until otherwise vested pursuant to the terms of the Grant Notice and these Standard Terms and Conditions. After the Grant Date, subject to termination or acceleration as provided in these Standard Terms and Conditions and the Plan, the Award shall become vested as described in the Grant Notice with respect to that number of shares of Restricted Stock as set forth in the Grant Notice. Shares of Restricted Stock that have vested and are no longer subject to forfeiture are referred to herein as "Vested Shares." Shares of Restricted Stock awarded hereunder that are not vested and remain subject to forfeiture are referred to herein as "Unvested Shares." Notwithstanding anything contained in these Standard Terms and Conditions to the contrary, upon a Participant's Termination of Employment, any then Unvested Shares held by the Participant shall be forfeited and canceled as of the date of such Termination of Employment.

## **3. RIGHTS AS STOCKHOLDER**

From and after the Grant Date, the Participant shall have all of the ownership, voting rights, dividend rights and all other rights of a stockholder of the Company with respect to the Restricted Stock, except that (i) such rights as to Unvested Shares shall terminate upon the forfeiture of such Unvested Shares as and to the extent specifically provided in Section 2 above and (ii) there will be no dividend rights on Unvested Shares.

**4. RESTRICTIONS ON REALES OF SHARES**

The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any Vested Shares, including without limitation (a) restrictions under an insider trading policy, (b) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant and other holders and (c) restrictions as to the use of a specified brokerage firm for such resales or other transfers.

**5. INCOME TAXES**

To the extent required by applicable federal, state, local or foreign law, the Participant shall make arrangements satisfactory to the Company for the satisfaction of any withholding tax obligations that arise by reason of the grant or vesting of the Restricted Stock. The Company shall not be required to issue shares or to recognize the disposition of such shares until such obligations are satisfied.

**6. NON-TRANSFERABILITY OF UNVESTED SHARES**

The Participant understands, acknowledges and agrees that, except as otherwise provided in the Plan or as permitted by the Administrator, the Unvested Shares may not be sold, assigned, transferred, pledged or otherwise directly or indirectly encumbered or disposed of other than by will or the laws of descent and distribution.

**7. OTHER AGREEMENTS SUPERSEDED**

The Grant Notice, these Standard Terms and Conditions and the Plan constitute the entire understanding between the Participant and the Company regarding the Restricted Stock. Any prior agreements, commitments or negotiations concerning the Restricted Stock are superseded.

**8. LIMITATION OF INTEREST IN SHARES SUBJECT TO RESTRICTED STOCK**

Neither the Participant (individually or as a member of a group) nor any beneficiary or other person claiming under or through the Participant shall have any right, title, interest, or privilege in or to any shares of Common Stock allocated or reserved for the purpose of the Plan or subject to the Grant Notice or these Standard Terms and Conditions except as to such shares of Common Stock, if any, as shall have been issued to such person in connection with the Award. Nothing in the Plan, in the Grant Notice, these Standard Terms and Conditions or any other instrument executed pursuant to the Plan shall confer upon the Participant any right to continue in the Company's employ or service nor limit in any way the Company's right to terminate the Participant's employment at any time for any reason.

**9. GENERAL**

- (a) In the event that any provision of these Standard Terms and Conditions is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary

to render it legal, valid and enforceable, or otherwise deleted, and the remainder of these Standard Terms and Conditions shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision.

- (b) The headings preceding the text of the sections hereof are inserted solely for convenience of reference, and shall not constitute a part of these Standard Terms and Conditions, nor shall they affect its meaning, construction or effect.
- (c) These Standard Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and their respective permitted heirs, beneficiaries, successors and assigns.
- (d) These Standard Terms and Conditions shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to principles of conflicts of law.
- (e) In the event of any conflict between the Grant Notice, these Standard Terms and Conditions and the Plan, the Grant Notice and these Standard Terms and Conditions shall control. In the event of any conflict between the Grant Notice and these Standard Terms and Conditions, the Grant Notice shall control.
- (f) All questions arising under the Plan or under these Standard Terms and Conditions shall be decided by the Administrator in its total and absolute discretion.

#### **10. ELECTRONIC DELIVERY**

By executing the Grant Notice, the Participant hereby consents to the delivery of information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the Subsidiaries, the Plan, and the Restricted Stock via Company web site or other electronic delivery.

**DEL FRISCO'S RESTAURANT GROUP, INC.  
GRANT NOTICE FOR 2012 LONG-TERM INCENTIVE PLAN  
EXECUTIVE RESTRICTED STOCK UNIT AWARD**

FOR GOOD AND VALUABLE CONSIDERATION, Del Frisco's Restaurant Group, Inc. (the "Company"), hereby grants to Participant named below the number of restricted stock units specified below (the "Award"). Each restricted stock unit represents the right to receive one share of the Company's common stock, par value \$0.001 (the "Common Stock"), upon the terms and subject to the conditions set forth in this Grant Notice, the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan (the "Plan") and the Standard Terms and Conditions (the "Standard Terms and Conditions") promulgated under such Plan, each as amended from time to time. This Award is granted pursuant to the Plan and is subject to and qualified in its entirety by the Standard Terms and Conditions. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan.

Name of Participant:	
Grant Date:	
Number of Restricted Stock Units:	
Vesting Schedule/Performance Requirements:	
Holding Requirements:	

By accepting this Grant Notice, Participant acknowledges that he or she has received and read, and agrees that this Award shall be subject to, the terms of this Grant Notice, the Plan and the Standard Terms and Conditions.

DEL FRISCO'S RESTAURANT GROUP,  
INC.

By \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_  
Participant Signature

Address (please print):  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**DEL FRISCO'S RESTAURANT GROUP, INC.  
STANDARD TERMS AND CONDITIONS FOR  
RESTRICTED STOCK UNITS**

These Standard Terms and Conditions apply to the Award of restricted stock units granted pursuant to the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan (the "Plan"), which are evidenced by a Grant Notice or an action of the Administrator that specifically refers to these Standard Terms and Conditions. In addition to these Terms and Conditions, the restricted stock units shall be subject to the terms of the Plan, which are incorporated into these Standard Terms and Conditions by this reference. Capitalized terms not otherwise defined herein shall have the meaning set forth in the Plan.

**1. TERMS OF RESTRICTED STOCK UNITS**

Del Frisco's Restaurant Group, Inc. (the "Company"), has granted to the Participant named in the Grant Notice provided to said Participant herewith (the "Grant Notice") an award of a number of restricted stock units (the "Award" or the "Restricted Stock Units") with each Restricted Stock Unit representing the right to receive one share of the Company's common stock, par value \$0.001 (the "Common Stock") specified in the Grant Notice. The Award is subject to the conditions set forth in the Grant Notice, these Standard Terms and Conditions, and the Plan, each as amended from time to time. For purposes of these Standard Terms and Conditions and the Grant Notice, any reference to the Company shall include a reference to any Subsidiary.

**2. VESTING OF RESTRICTED STOCK UNITS**

The Award shall not be vested as of the Grant Date set forth in the Grant Notice and shall be forfeitable unless and until otherwise vested pursuant to the terms of the Grant Notice and these Standard Terms and Conditions. After the Grant Date, subject to termination or acceleration as provided in these Standard Terms and Conditions and the Plan, the Award shall become vested as described in the Grant Notice with respect to that number of Restricted Stock Units as set forth in the Grant Notice. Restricted Stock Units that have vested and are no longer subject to forfeiture are referred to herein as "Vested RSUs." Restricted Stock Units awarded hereunder that are not vested and remain subject to forfeiture are referred to herein as "Unvested RSUs." Vested RSUs shall be settled by the delivery of shares of Common Stock. Notwithstanding anything contained in these Standard Terms and Conditions to the contrary, upon a Participant's Termination of Employment, any then Unvested RSUs held by the Participant shall be forfeited and canceled as of the date of such Termination of Employment.

**3. RIGHTS AS STOCKHOLDER**

The Participant shall not be, nor have any of the rights or privileges of, a stockholder of the Company in respect of any Restricted Stock Units unless and until shares of Common Stock settled for such Restricted Stock Units shall have been issued by the Company to Participant (as evidenced by the appropriate entry on the books of the Company or of a

duly authorized transfer agent of the Company). For avoidance of doubt, there shall not be any dividend or dividend equivalent rights with respect to Unvested RSUs.

**4. RESTRICTIONS ON REALES OF SHARES**

The Company may impose such restrictions, conditions or limitations as it determines appropriate as to the timing and manner of any resales by the Participant or other subsequent transfers by the Participant of any shares of Common Stock issued pursuant to Vested RSUs, including without limitation (a) restrictions under an insider trading policy, (b) restrictions designed to delay and/or coordinate the timing and manner of sales by Participant and other holders and (c) restrictions as to the use of a specified brokerage firm for such resales or other transfers.

**5. INCOME TAXES**

The Company shall not deliver shares of Common Stock in respect of any Vested RSUs unless and until the Participant has made arrangements satisfactory to the Administrator to satisfy applicable withholding tax obligations. Unless the Participant pays the withholding tax obligations to the Company by cash or check in connection with the settlement of Vested RSUs, withholding shall be effected by withholding Common Stock issuable in connection with the settlement of the Vested RSUs (provided that shares of Common Stock may be withheld only to the extent that such withholding will not result in adverse accounting treatment for the Company). The Participant acknowledges that the Company shall have the right to deduct any taxes required to be withheld by law in connection with the settlement of Vested RSUs from any amounts payable by it to the Participant (including, without limitation, future cash wages).

**6. NON-TRANSFERABILITY OF AWARD**

The Participant understands, acknowledges and agrees that, except as otherwise provided in the Plan or as permitted by the Administrator, the Award may not be sold, assigned, transferred, pledged or otherwise directly or indirectly encumbered or disposed of other than by will or the laws of descent and distribution.

**7. OTHER AGREEMENTS SUPERSEDED**

The Grant Notice, these Standard Terms and Conditions and the Plan constitute the entire understanding between the Participant and the Company regarding the Restricted Stock Units. Any prior agreements, commitments or negotiations concerning the Restricted Stock Units are superseded.

**8. LIMITATION OF INTEREST IN SHARES SUBJECT TO RESTRICTED STOCK UNITS**

Neither the Participant (individually or as a member of a group) nor any beneficiary or other person claiming under or through the Participant shall have any right, title, interest, or privilege in or to any shares of Common Stock allocated or reserved for the purpose of the Plan or subject to the Grant Notice or these Standard Terms and Conditions except as

to such shares of Common Stock, if any, as shall have been issued to such person in connection with the Award. Nothing in the Plan, in the Grant Notice, these Standard Terms and Conditions or any other instrument executed pursuant to the Plan shall confer upon the Participant any right to continue in the Company's employ or service nor limit in any way the Company's right to terminate the Participant's employment at any time for any reason.

## **9. GENERAL**

- (a) In the event that any provision of these Standard Terms and Conditions is declared to be illegal, invalid or otherwise unenforceable by a court of competent jurisdiction, such provision shall be reformed, if possible, to the extent necessary to render it legal, valid and enforceable, or otherwise deleted, and the remainder of these Standard Terms and Conditions shall not be affected except to the extent necessary to reform or delete such illegal, invalid or unenforceable provision.
- (b) The headings preceding the text of the sections hereof are inserted solely for convenience of reference, and shall not constitute a part of these Standard Terms and Conditions, nor shall they affect its meaning, construction or effect.
- (c) These Standard Terms and Conditions shall inure to the benefit of and be binding upon the parties hereto and their respective permitted heirs, beneficiaries, successors and assigns.
- (d) These Standard Terms and Conditions shall be construed in accordance with and governed by the laws of the State of Delaware, without regard to principles of conflicts of law.
- (e) In the event of any conflict between the Grant Notice, these Standard Terms and Conditions and the Plan, the Grant Notice and these Standard Terms and Conditions shall control. In the event of any conflict between the Grant Notice and these Standard Terms and Conditions, the Grant Notice shall control.
- (f) All questions arising under the Plan or under these Standard Terms and Conditions shall be decided by the Administrator in its total and absolute discretion.

## **10. ELECTRONIC DELIVERY**

By executing the Grant Notice, the Participant hereby consents to the delivery of information (including, without limitation, information required to be delivered to the Participant pursuant to applicable securities laws) regarding the Company and the Subsidiaries, the Plan, and the Restricted Stock Units via Company web site or other electronic delivery.

## EXECUTIVE EMPLOYMENT AGREEMENT

This Executive Employment Agreement (this “**Agreement**”) is made as of the 21st day of November, 2016 (the “**Effective Date**”) between Norman Abdallah (“**Executive**”), an individual, and Del Frisco’s Restaurant Group, Inc., a Delaware corporation (the “**Company**”). Capitalized terms used herein shall have the meanings given to them in Section 5 below.

In consideration of the mutual promises expressed herein, Executive and the Company have agreed as follows:

### 1. EMPLOYMENT.

(a) *Effective Date and Term.* This Agreement shall be effective as of the Effective Date and will continue indefinitely thereafter unless Executive’s employment terminates earlier in accordance with Section 3.

(b) *Duties.* Executive shall be employed as President and Chief Executive Officer with the duties and responsibilities associated with such positions in a company the size and nature of the company. Executive shall be the senior most executive of the Company. Executive agrees to devote Executive’s full business time and good faith best efforts to the performance of the duties attendant to Executive’s executive positions with the Company. Executive shall report directly and exclusively to the Company’s Board of Directors.

### 2. COMPENSATION AND BENEFITS.

(a) *Annual Salary.* Executive’s salary shall be \$600,000 per year, less applicable taxes and withholdings, to be paid in accordance with the Company’s regular payroll practices for similarly situated executives; provided, however, Executive’s salary may be increased (but not decreased) by the Company’s Board of Directors (the “**Board**”) or its designee, in its sole discretion. The base salary in effect hereunder shall be referred to herein as the “**Base Salary**.”

(b) *Annual Incentive Bonus.* Executive shall be entitled to participate in all bonus compensation plans that the Company may offer, in accordance with the terms of any such plans and on a level commensurate with his position; provided that such plan shall provide for threshold and maximum payments of 50% and 200% of Executive’s Target Bonus, respectively and (ii) not permit the use of negative discretion to reduce the amount of otherwise earned (as determined by the Board or the compensation committee thereof in good faith) by Executive. The target for Executive’s annual bonus shall be one hundred percent (100%) of Executive annual salary (“**Target Bonus**”) and shall be earned based on the achievement of objective performance metrics established by the compensation committee of the Board after consultation with Executive. Executive’s entitlement to an annual incentive bonus under this subparagraph 2(b), and the amount of such bonus shall be determined by the Company in its good faith discretion; provided, however, if the terms of a written annual incentive bonus plan do not include provisions regarding the time of payment for an annual incentive bonus, payment of any such bonus shall occur within 15 days of the completion of the audit for the fiscal year to which the bonus relates but in any event by March 15 of year following performance year.

(c) *Long Term Incentives.* Executive shall be entitled to participate in the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan in a manner commensurate with his position as determined in good faith by the Board or the appropriate committee thereof. Notwithstanding the foregoing, Executive shall receive a sign on award of 200,000 restricted stock units on the terms and conditions set forth on Exhibit A and shall receive an annual long-term award during 2017 having a grant date fair value of no less than \$1,400,000 on the terms and conditions set forth on Exhibit B.

(d) *Benefits.*

(i) *Standard Employee Benefits.* Executive shall be eligible for all employee benefits extended, from time to time, to all full-time employees of the Company, subject to the terms and conditions of the Company's policies and employee benefit plans, as those policies and plans are amended or terminated from time to time.

(ii) *Executive Benefits.* Executive shall also be entitled to participate in all benefit programs that are maintained by the Company and available to its executive officers generally, subject to the terms and conditions of those programs, as those programs are amended or terminated by the Board of Directors from time to time. Executive acknowledges that Executive shall have no vested rights under or in respect to Executive's participation in any such program except as expressly provided under the terms thereof.

(iii) *Business Expenses.* Executive shall be authorized to incur reasonable expenses for completion of his duties with the Company, including expenses for entertainment, travel, and similar items, in accordance with the terms and conditions of the Company's expense reimbursement policy as in effect from time to time.

(iv) *Vacations.* Executive shall be entitled to participate in the Company's established vacation policy for executive officers, subject to the terms and conditions thereof.

(e) *Relocation Allowance.* Upon Executive's relocation closer to the South Lake, Texas area, the Company shall pay Executive a relocation allowance in the amount of \$115,000 cash signing bonus within 10 days of Executive's start date.

### 3. TERMINATION AND SEVERANCE.

(a) Executive's employment may be terminated in accordance with the following provisions:

(i) *Death.* Executive's employment shall immediately terminate upon Executive's death.

(ii) *Disability.* If Executive incurs a Disability, the Company may give Executive written notice of its intention to terminate Executive's employment; provided that such written notice may only be given after the expiration of the time period required under the definition of Disability below. In that event, Executive's employment with the Company shall terminate effective on the later of (x) the fifteenth (15<sup>th</sup>) day after receipt of such notice by Executive or (y) the date specified in such notice, provided that within the fifteen (15) days after such receipt, Executive shall not have returned to full-time performance of Executive's duties.

(iii) *Termination by the Company without Cause.* The Company may terminate Executive's employment without Cause (as defined below) at any time upon written notice to Executive.

(iv) *Termination by the Company for Cause.* The Company may terminate Executive's employment for Cause at any time upon written notice to Executive, and such written notice shall contain a statement noting the reason(s) for the Cause termination. To the extent required by Section 5(a), and if such failure(s) are curable, Executive shall be given an opportunity to cure the failure(s) noted in such written notice as the reason(s) for the Cause termination.

(v) *Termination by Executive for Good Reason.* Executive may terminate Executive's employment for Good Reason (as defined below) upon thirty (30) days' written notice to the Company.

(vi) *Voluntary Termination by Executive Not Involving Good Reason.* Executive may terminate Executive's employment voluntarily for any reason other than a Good Reason upon sixty (60) days' written notice to the Company (such 60-day period is herein referred to as the "**Notice Period**"). During the Notice Period, Executive shall continue to be employed by the Company subject to Section 1(b); provided, however, that (x) the Company shall have the right to shorten or eliminate the Notice Period in its good faith discretion and (y) if the Company shortens or eliminates the Notice Period, such action by the Company shall constitute neither (1) a termination of Executive's employment by Executive pursuant to Section 3(a)(v) nor (2) a termination of Executive's employment by the Company pursuant to Section 3(a)(ii), Section 3(a)(iii), or Section 3(a)(iv). In the event that the Company shortens or eliminates the Notice Period, the Company shall pay Executive's salary for the entire Notice Period and shall also pay Executive the same bonuses and incentive payments that Executive would have been paid if Executive had remained employed through the end of the Notice Period.

(b) *Severance Benefits.*

(i) *Termination without Cause; Termination for Good Reason.* If Executive's employment terminates pursuant Section 3(a)(iii) or Section 3(a)(v), the Company agrees to provide Executive, as severance benefits, the following:

(A) Payment of Executive's base monthly salary plus a monthly amount equal to one-twelfth of Executive target annual bonus, in each case, in effect at the time of Executive's Date of Termination during the Severance Period (defined below); and

(B) Vesting of Executive's equity incentive awards outstanding on the Date of Termination as follows: (i) for time-vested awards, Executive will be granted 18 months of additional vesting credit as of the Date of Termination and such awards shall be assumed to vest pro rata on a daily basis over the applicable vesting period and (ii) for performance-vested awards, a pro rata portion of such awards (based on the portion of the applicable performance period Executive was employed by the Company plus an additional 18 months) shall remain outstanding and will vest at the end of the applicable performance period to the extent the applicable performance targets are subsequently achieved; and

(C) Payment of Executive's medical premiums during the Severance Period for the medical coverage that Executive had elected to receive under the Company's ERISA medical plan and that was in effect as of the Date of Termination, but only to the extent that Executive receives COBRA coverage during the Severance Period.

**"Severance Period"** means the eighteen (18) consecutive months immediately following the Date of Termination.

Unless delayed pursuant to Section 3(d), monthly severance payments pursuant to Section 3(b)(i)(A) will be paid to Executive in equal installments, beginning on the first pay date occurring after the 60<sup>th</sup> day following the Date of Termination. All of the severance benefits pursuant to this Subsection (b)(i) and Section 3(c) are conditioned upon Executive entering into a separation agreement and general release of all claims in favor of the Company and its affiliates (the **"Release"**) substantially on the form attached as Exhibit C, within the prescribed time period set forth therein, and Executive's non-revocation of the Release during the revocation period prescribed therein. The Company shall provide Executive with the Release within five (5) business days after the Date of Termination. Time is of the essence so that the prescribed time periods therein expire within the sixty (60) day period following the Date of Termination.

(ii) *Termination for any other Reason.* If Executive's employment terminates pursuant to any provision of this Agreement other than pursuant to Section 3(a)(iii) or Section 3(a)(v) of this Agreement, the Company has no obligation to pay Executive any severance or other termination benefits.

(c) *Change in Control.* This Section 3(c) shall apply if there is (i) a termination of Executive's employment (A) by the Company for a reason other than for Cause or due to Executive's death or Disability or (B) by Executive for Good Reason, in either case, during the two-year period after a Change in Control; or (ii) a termination of Executive's employment prior to a Change in Control by the Company for a reason other than for Cause or due to Executive's death or Disability, if the termination was at the request of a third party or otherwise arose in anticipation of such Change in Control (a termination described in either clause (i) or clause (ii), a **"CIC Termination"**). If any such termination occurs, (A) Executive shall receive benefits set forth in Section 3(b), except that (I) the cash severance payment shall be equal to the product of 2.0 and the sum of Executive's Base Salary and Target Bonus and such payment shall be paid in a lump sum to the extent consistent with Section 409A of the Code within thirty (30) days following the date of termination, (II) vesting of Executive's equity incentive awards outstanding on the Date of Termination as follows: (i) for time-vested awards, Executive will be granted 24 months of additional vesting credit as of the Date of Termination and such awards shall be assumed to vest pro rata on a daily basis over the applicable vesting period and (ii) for performance-vested awards, a pro rata portion of such awards (based on the portion of the applicable performance period Executive was employed by the Company plus an additional 24 months) shall remain outstanding and will vest at the end of the applicable performance period to the extent the applicable performance targets with respect to any performance goal tied to total stockholder return were achieved (and without regard to any other performance-based vesting criteria, which other criteria shall be deemed satisfied at the same level that the total stockholder return criteria is achieved), and (III) the period during which the payments for continued coverage under Section 3(b)(i)(C) are made shall be 24 months.

(d) *Timing; Form of Payments.* All benefits provided to Executive pursuant to Section 3(b)(i) or Section 3(c) (the “**Severance Benefits**”) will be subject to applicable federal and state income tax and employment tax withholdings and deductions and any other applicable withholdings and deductions. Notwithstanding anything else herein, to the extent any of the Severance Benefits are treated as nonqualified deferred compensation subject to Section 409A of the Internal Revenue Code of 1986, as amended (the “**Code**”), then (i) no such payment shall be made to Executive unless Executive’s termination of employment constitutes a “separation from service” with the Company (as such term is defined in Treasury Regulation Section 1.409A-1(h) and any successor provision thereto), and (ii) if Executive is determined by the Company to be a “specified employee” for purposes of Code § 409A(a)(2)(B)(i) and the Company determines that delayed commencement of any portion of the Severance Benefits is required in order to avoid a prohibited distribution under Code § 409A(a)(2)(B)(i), commencement of such portion of the Severance Benefits will be delayed for six (6) months following Executive’s “separation from service” pursuant to Code § 409A, or, if sooner, until Executive’s death. Delayed Severance Benefits (if any) shall be payable in a lump sum on the first business day following the expiration of such six (6) month period, and any remaining Severance Benefits due shall be paid as otherwise provided in Section 3(b)(i). Notwithstanding the foregoing, to the maximum extent permitted by applicable law, payment of the Severance Benefits shall be made in reliance upon Treasury Regulation § 1.409A-1(b)(9) (with respect to separation pay plans) or Treasury Regulation § 1.409A-1(b)(4). The Severance Benefits shall be treated as a right to a series of separate payments. The provisions of this Agreement are intended to comply with the applicable requirements of Code § 409A and shall be limited, construed, and interpreted in accordance with such intent.

(e) *Consequences of Material Violation of Promises.* Executive acknowledges and agrees that the Company’s obligation to provide and Executive’s entitlement to receive the Severance Benefits shall cease immediately upon an intentional and material violation of Section 4(a) or a material and willful violation by Executive of Executive’s other obligations under Section 4 of this Agreement, in each case, only if such violation is not cured within 30 days of written notice of such violation from the Company.

#### 4. EXECUTIVE’S COVENANTS

(a) *Confidential Information and Trade Secrets.* Executive acknowledges that the Company has trade, business, and financial secrets and other confidential and proprietary information regarding the Company and its business, in whatever form, tangible or intangible (collectively, the “**Confidential Information**”), and that, during the term of this Agreement, Executive will receive Confidential Information. Executive acknowledges that the Confidential Information that Executive will receive during the term of this Agreement will be in addition to that which Executive has already received during Executive’s employment with the Company. Executive further acknowledges and agrees that Executive’s use of Confidential Information in the conduct of business on behalf of a competitor of the Company would constitute unfair competition with the Company and would adversely affect the business goodwill of the Company. Confidential Information includes, but is not limited to, sales materials, technical information, processes, compilations of information, records, specifications, and information regarding methods of doing business. As defined herein, Confidential Information shall not include information that is: (i) obtained by Executive from a source other than the Company or its affiliates, which source is not under a duty of non-disclosure in regard to such information; or (ii) becomes generally

available to the public other than through disclosure by Executive in violation of the provisions of this Agreement. For purposes of clarity, the parties understand and agree that Confidential Information also does not include general know-how and/or general processes, systems, and procedures (such as general sales processes and best practices) that Executive has gained or gains by virtue of his experience working for the Company and/or within the “white-tablecloth restaurant” and/or “fine dining establishment” industries.

Executive is aware of those policies implemented by the Company to keep its Confidential Information secret, including those policies limiting the disclosure of information on a need-to-know basis and requiring the keeping of information in secure areas. Executive acknowledges that the Confidential Information has been developed or acquired by the Company through the expenditure of substantial time, effort, and money and provides the Company with an advantage over competitors who do not know or use such Confidential Information.

During and following Executive’s employment by the Company, Executive shall hold in confidence and not directly or indirectly disclose, use (for Executive’s commercial advantage or otherwise), copy, make lists of, or make available to others any Confidential Information except in Executive’s good faith performance of Executive’s duties to the Company as an executive of the Company or to the extent authorized in writing by the Board or required by law or compelled by legal process. Executive agrees to use reasonable efforts to give the Company notice of any and all attempts to compel disclosure of any Confidential Information, in such a manner so as to promptly provide the Company with written notice that such disclosure is being or shall be compelled, whichever is earlier. Such written notice shall include a description of the information to be disclosed, the court, government agency, or other forum through which the disclosure is sought, and the date by which the information is to be disclosed, and shall contain a copy of the subpoena, order, or other process used to compel disclosure.

Executive further agrees not to use any Confidential Information for the benefit of any person or entity other than the Company, its subsidiaries and affiliates.

Executive agrees that all Confidential Information and other files, documents, materials, records, notebooks, customer lists, business proposals, contracts, agreements, and other repositories containing information concerning the Company or the business of the Company, in whatever form, tangible or intangible (including all copies thereof), that Executive shall prepare, use, or be provided with as a result of Executive’s employment with the Company, shall be and remain the sole property of the Company. Upon termination of Executive’s employment hereunder, Executive agrees that all Confidential Information and other files, documents, materials, records, notebooks, business proposals, contracts, agreements, and other repositories containing Confidential Information (including all copies thereof) in Executive’s possession, custody, or control, whether prepared by Executive or others, shall remain with or be returned to the Company promptly after the Date of Termination. Anything to the contrary notwithstanding, nothing in this Section 7 shall prevent Executive from retaining a home computer, papers and other materials of a personal nature, including diaries, calendars and Rolodexes, information relating to his compensation or relating to reimbursement of expenses, information that he reasonably believes may be needed for tax purposes, and copies of plans, programs and agreements relating to his employment.

Notwithstanding anything herein to the contrary, Executive may disclose to Executive's spouse and any personal tax or financial advisor the United States Federal income tax treatment and tax structure of the transactions contemplated in this Agreement and all materials of any kind (including opinions and other tax analyses) that are provided to Executive relating to such tax treatment and tax structure. In addition, nothing in this Agreement prohibits Executive from reporting possible violations of federal law or regulation to any governmental agency or governmental entity, or making other disclosures that are protected under federal law or regulation; provided, that, in each case such communications and disclosures are consistent with applicable law. Notwithstanding the foregoing, under no circumstance is Executive authorized to disclose any information covered by the Company's attorney-client privilege or attorney work product or the Company's trade secrets without prior written consent of the Company's General Counsel.

(b) *Non-Competition and Non-Solicitation.* Executive acknowledges and agrees that the nature of the Confidential Information that the Company commits to provide to Executive during Executive's employment by the Company would make it unlikely that Executive would be able to perform in a similar capacity for a Competing Business (as defined below) without disclosing or utilizing the Confidential Information. Executive further acknowledges and agrees that the Company's business is conducted in a highly competitive market. Accordingly, Executive agrees that during the Non-Competition Period (as defined below), Executive will not (other than for the benefit of the Company, its subsidiaries and affiliates pursuant to this Agreement) directly or indirectly, individually or as an officer, director, employee, shareholder, consultant, contractor, partner, joint venturer, agent, equity owner, or in any capacity whatsoever, (i) regardless of the reason for termination, work for, engage in, or operate any restaurant business or restaurant operating or management company that (x) features the sale of steak where the sale of steak exceeds thirty percent (30%) of the restaurant's revenues from food sales and (y) which is, or owns or operates restaurants, located within thirty (30) miles of any Del Frisco's Double Eagle Steak House restaurant, any Del Frisco's Grill restaurant, or any Sullivan's Steakhouse restaurant (a "**Competing Business**"), or (ii) (x) hire, attempt to hire, contact with respect to hiring, or solicit with respect to hiring any employee of any Protected Company; or (z) solicit, encourage, or influence any suppliers or vendors of any Protected Company to cease doing business with any Protected Company or change the terms and conditions upon which they conduct their business with any Protected Company where Executive had, whether directly or indirectly, contact during the period of time that Executive was employed by the Company or its predecessors-in-interest or its affiliates (herein, the "**Employment Period**") or business relations during the Employment Period with such vendors or suppliers, or about whom Executive possesses Confidential Information.

For purposes of this Section, "**Non-Competition Term**" means the Employment Period and the (18) consecutive months immediately following the Date of Termination.

If any court determines that any portion of this Section 4(b) is invalid or unenforceable, the remainder of this Section 4(b) shall not thereby be affected and shall be given full effect without regard to the invalid provisions. If any court construes any of the provisions of this Section 4(b), or any part thereof, to be unreasonable because of the duration or scope of such provision, such court shall have the power to reduce the duration or scope of such provision and to enforce such provision as so reduced.

(c) *Irreparable Harm.* Executive acknowledges that Executive's violation of the provisions of Section 4(a) or Section 4(b) of this Agreement will cause irreparable harm to the Company, and Executive agrees that the Company shall be entitled as a matter of right to an injunction restraining any violation or further violation of such provisions by Executive or others acting on Executive's behalf, without any showing of irreparable harm and without any showing that the Company does not have an adequate remedy at law. Executive further covenants and warrants that Executive will not dispute in any proceeding that any given violation or further violation of the covenants contained in Section 4(a) or Section 4(b): (i) will result in irreparable harm to the Company; or (ii) could not be remedied adequately at law. The Company's right to injunctive relief shall be cumulative and in addition to any other remedies provided by law or equity.

(d) *Reasonableness of Restrictions.* Executive understands and acknowledges that the Company has made substantial investments to develop its Confidential Information, goodwill, and other legitimate business interests. Executive agrees that such investments are worthy of protection, and that the Company's need for the protection afforded by Section 4(b) is greater than any hardship Executive might experience by complying with its terms. Executive agrees that the limitations as to time, geographic area, and scope of activity to be restrained contained in this Agreement are reasonable and are not greater than necessary to protect the Confidential Information, goodwill, and other legitimate interests of the Company. Executive specifically agrees that, given the senior executive nature of Executive's position and national operations of the Company, any restriction other than on the basis specified in Section 4(b) would be inadequate to protect the company's Confidential Information. Executive further agrees that the restrictions contained in Section 4(b) allow Executive an adequate number and variety of employment alternatives, based on Executive's varied skills and abilities. Accordingly, Executive covenants and warrants that Executive will not dispute in any proceeding that: (i) the restraints contained in Section 4(b) are reasonable and not greater than necessary to protect proprietary information and/or the goodwill or other business interests of the Company; or (ii) the scope of the restraints contained in Section 4(b) should be reformed so as to make them enforceable, if it is judicially determined that they are unenforceable as drafted.

## 5. DEFINITIONS.

(a) *Cause.* "**Cause**" shall mean any or all of the following:

(i) Failure by Executive to substantially perform material duties hereunder or to devote Executive's full time and effort to Executive's position with the Company, other than any failure resulting from death, illness or injury, or Disability, that continues after written notice requesting such performance;

(ii) Executive's material violation of a material Company policy that results in significant and demonstrable damage to the Company's business or reputation, which, to the extent such failure is curable, Executive does not cure within a period of thirty (30) days after written notice of such failure is provided to Executive by the Company;

(iii) Executive's conviction of or plea of guilty or nolo contendere to any felony; or

(iv) An intentional and material breach of Section 4(a) or a material and wilful breach of Executive's other obligations under Section 4 of this Agreement, which, in either case, Executive does not cure within a period of thirty (30) days after written notice of such breach is provided to Executive by the Company.

(b) *Change in Control*. "**Change in Control**" shall have the meaning set forth in the Del Frisco's Restaurant Group 2012 Long-Term Incentive Plan or any successor plan.

(c) *Date of Termination*. "**Date of Termination**" shall mean the date on which Executive's termination of employment with the Company occurs; provided, however, to the extent that Executive is receiving compensation due to such termination of employment and such compensation is subject to Code § 409A, "Date of Termination" shall mean the date of Executive's "separation from service" (within the meaning of Treasury Regulation § 1.409A-1(h)).

(d) *Disability*. "**Disability**" shall mean shall mean Executive's inability to perform, with or without reasonable accommodation, the essential functions of Executive's position hereunder for a total of three (3) months during any six (6) month period as a result of incapacity due to mental or physical illness as determined by a physician selected by the Company or its insurers and acceptable to Executive or Executive's legal representative, such agreement as to acceptability not to be unreasonably withheld or delayed.

(e) *Good Reason*. "**Good Reason**" shall mean that any of the following events occurs without Executive's consent:

(i) The Company requires Executive to be based from a location that is outside of a fifty (50) mile radius of the Company's principal executive offices as of the Effective Date;

(ii) The Company materially decreases Executive's Base Salary or Target Bonus level;

(iii) A material breach by the Company of this Agreement; or

(iv) A diminution in the title and/or duties, responsibilities, or authority of Executive.

Provided, however, for all of the events described in clauses (i), (ii), (iii), and (iv) immediately above, Good Reason will not exist (x) unless Executive has provided the Company with written notice of the circumstances that Executive believes constitute Good Reason within ninety (90) days after Executive knows, or through reasonable diligence, should know of such events and circumstances and (y) the Company has failed to cure within thirty (30) days of such notice. In the event the Company does not cure the identified circumstances on or before the expiration of the 30-day "cure" period referred to above, then Executive must terminate employment for Good Reason within ninety (90) days of the end of such cure period, or any later termination of employment by Executive will not constitute Good Reason based upon the same previously identified circumstances. Notwithstanding anything else herein, the Company and Executive may agree, in writing, to extend the 90-day period during which Executive must terminate employment for Good Reason.

(f) *Protected Company*. "**Protected Company**" shall mean, individually, each of the Company and all subsidiaries of the Company (together with each successor and assign of each).

*6. Arbitration; Waiver of Right to Jury Trial.*

(a) In the event any claim, demand, cause of action, dispute, controversy, or other matter in question (in this Section 6, a **“Claim”**) arises out of this Agreement (or its termination), whether arising in contract, tort, or otherwise and whether provided by statute, equity, or common law, that the Company may have against Executive or that Executive may have against the Company, or any of the Company’s subsidiaries or affiliates, or any of the foregoing entities’ respective officers, directors, employees, or agents in their capacity as such or otherwise, all such Claims shall be submitted to binding arbitration. Any arbitration shall be conducted in accordance with the Federal Arbitration Act (**“FAA”**) and, to the extent an issue is not addressed by the FAA or the FAA does not apply, with the then-current National Rules for the Resolution of Employment Disputes of the American Arbitration Association (**“AAA”**). The arbitrator shall apply the substantive law of Texas (excluding Texas choice-of-law principles that might call for the application of some other state’s law) or federal law, or both as applicable to the Claims asserted. The arbitrator shall have exclusive authority to resolve any dispute relating to the interpretation, applicability, or enforceability of this Section 6(a), including any Claim that all or part of this Agreement is void or voidable and any Claim that an issue is not subject to arbitration. The results of arbitration will be binding and conclusive on the parties hereto and judgment upon the award resulting from arbitration may be entered in any court of competent jurisdiction. Venue for arbitration, and for any disputes relating to the enforceability of this Section 6(a) will be in Dallas County, Texas. All proceedings conducted pursuant to this Section 6(a), including any order decision or award of the arbitrator, shall be kept confidential by all parties. The Company shall reimburse Executive (and his beneficiaries) for any and all costs and expenses (including without limitation attorneys’ fees and other charges of counsel) incurred by Executive (or any of his beneficiaries) in resolving any controversy, dispute or claim arising out of or relating to this Agreement, any other agreement or arrangement between Executive and the Company, Executive’s employment with the Company, or the termination thereof if the Executive prevails on any material issue involved in such dispute (a **“Dispute”**); provided that in the event the Dispute involves events occurring after a Change in Control, the Company shall advance Executive (and his beneficiaries) for any and all costs and expenses (including without limitation attorneys’ fees and other charges of counsel) incurred by Executive (or any of his beneficiaries) in resolving any such Dispute, subject to repayment if it is judicially determined that the Executive’s claim was frivolous or advanced in bad faith. This Section 6(a) shall continue in effect after the termination of Executive’s employment or the termination of this Agreement.

(b) Notwithstanding any of the foregoing or any other provision of this Agreement, Executive and the Company may petition a court for an injunction to maintain the status quo pending resolution of any Claim under Section 6(a), and Section 6(a) shall not require the arbitration of an application for emergency or temporary injunctive relief by either party pending arbitration; provided, however, that the remainder of any such dispute beyond the application for emergency or temporary injunctive relief shall be subject to arbitration under Section 6(a).

(c) Executive and the Company agree that, in the event that the arbitration provision set forth in Section 6(a) is unenforceable, that all Claims shall be decided by trial before the court and not by a jury trial. The venue for any such trial shall be Dallas County, Texas.

**(d) Executive acknowledges that by signing this Agreement, Executive is waiving any right that Executive may have to a jury trial in connection with, or relating to, a Claim.**

## 7. MISCELLANEOUS.

(a) *Entire Agreement.* This Agreement embodies the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, if any, between the parties regarding the subject matter hereof.

(b) *Modification, Severability, and Waiver.* Both parties agree that neither has the authority to modify or amend this Agreement unless the modification or amendment is in writing and signed by both of them. If any provision of this Agreement is declared or found to be illegal, unenforceable, or void, the remainder of this Agreement shall remain valid and enforceable to the extent feasible. Any waiver of any term of this Agreement by the Company shall not operate as a waiver of any other term of this Agreement, nor shall any failure to enforce any provision of this Agreement operate as a waiver of the right of the Company to enforce any other provision of this Agreement.

(c) *Notice to the Company.* Notice to the Company shall have occurred and be effective when a written notice is delivered via certified mail to the then-current address of the Company's principal office and to the attention of the Board Chair.

(d) *Withholding.* The Company may withhold from any amounts payable under this Agreement such Federal, state or local taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(e) *Survival and Construction.* Executive's obligations under this Agreement will be binding upon Executive's heirs, executors, assigns, and administrators and will inure to the benefit of the Company, its subsidiaries, successors, and assigns. The Company's obligations under this Agreement will be binding upon the Company's successors assigns and will inure to the benefit of Executive and Executive's heirs, executors, and administrators. The language of this Agreement shall in all cases be construed as a whole according to its fair meaning, and not strictly for or against any of the parties. The paragraph headings used in this Agreement are intended solely for convenience of reference and shall not in any manner amplify, limit, modify, or otherwise be used in the interpretation of any of the provisions hereof. Executive may not assign, pledge, grant a security interest in, hypothecate, or otherwise transfer any of its rights, duties, or obligations hereunder.

(f) *No Mitigation.* Executive shall not be required to mitigate damages or the amount of any payment provided for under this Agreement by seeking other employment or otherwise, nor shall the amount of any payment provided for under this Agreement be reduced by any compensation earned by Executive as the result of employment by another employer after Executive's Date of Termination.

(g) *Other Contractual Rights.* Except as otherwise provided in Subsection (f), the provisions of this Agreement, and any payment provided for hereunder, shall not reduce any amount otherwise payable, or in any way diminish Executive's existing rights, or right which would accrue

solely as a result of passage of time under any employee benefit plan or other contract, plan, or arrangement of which Executive is a beneficiary or in which Executive participates.

*[signature page follows]*

IN WITNESS WHEREOF, Executive and the Company have executed this Agreement as of the Effective Date.

DEL FRISCO'S RESTAURANT GROUP,  
INC.

Executive:

By: /s/ Thomas J. Pennison, Jr.  
Printed Name: Thomas J. Pennison, Jr.  
Title: Chief Financial Officer/Treasurer

/s/ Norman Abdallah  
Printed Name: Norman Abdallah

## **Exhibit A**

### **Terms and Conditions of Sign On Equity Award**

100,000 RSU's with expiration at 12/31/22 (if not vested by that date). Units vest at \$28/share\*\*

Additional 100,000 RSU's with expiration at 12/31/22 (if not vested by that date). Units vest at \$28/share or change in control.\*\*

\*\*Share price must equal or exceed \$28 for minimum of 5 consecutive trading days.

50% of shares subject to award to be held until at least 1 year after share price target achieved.  
50% of shares subject to award to be held until at least 12/31/22.

Except as set forth in the Employment Agreement, Award shall otherwise be subject to the standard terms and conditions applicable to RSUs granted to executive officers generally.

## **Exhibit B**

### **Terms and Conditions of 2017 Equity Award**

Award will have grant date fair value, as determined by the Board in good faith, of \$1,400,000.

Grant structure as follows:

- 50% time based RSU's vesting 1/3<sup>rd</sup> per year over 3 years
- 50% performance based PSU's 3yr cliff vesting  
Measurement for PSU's:
  - a) 50% based on Total Shareholder Return over 3 year period as measured by DFRG Stock Price (target, minimum and maximum performance and TSR measurement to be approved by the Board consistent with the Board's discussions with Executive)
  - b) 50% based on Return on Invested Capital over a 3 year period (target, minimum and maximum performance and ROIC measurement to be approved by the Board consistent with the Board's discussions with Executive)

Except as set forth in the Employment Agreement, Award shall otherwise be subject to the standard terms and conditions applicable to RSUs granted to executive officers generally.

## Exhibit C

**[The language in this Release may change based on legal developments and evolving best practices; this form is provided as an example of what will be included in the final Release document.]**

### WAIVER AND GENERAL RELEASE OF CLAIMS

This WAIVER AND GENERAL RELEASE OF CLAIMS (this “Agreement”) is entered into as of this \_\_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_, by and between Norman Abdallah (“Executive”) and DEL FRISCO’S RESTAURANT GROUP, INC. (the “Company”).

1. General Release.

- a. In consideration of the payments (less all applicable federal, state and local withholdings) set forth in Section 3(b)(i) [and 3(c)] of that certain Employment Agreement, dated November 21, 2016, by and between the Company and Executive (the “Employment Agreement”), Executive, on behalf of himself and his agents, heirs, executors, successors and assigns, knowingly and voluntarily releases, remises, and forever discharges the Company, and its parents, subsidiaries or affiliates, together with each of their current and former principals, officers, directors, partners, shareholders, agents, representatives and employees, and each of their respective affiliates, and each of the above listed person’s heirs (each, in their capacity as such), executors, successors and assigns whether or not acting in his or her representative, individual or any other capacity (collectively, the “Releasees”), to the fullest extent permitted by law, from any and all debts, demands, actions, causes of actions, accounts, covenants, contracts, agreements, claims, damages, costs, expenses, omissions, promises, and any and all claims and liabilities whatsoever, of every name and nature, known or unknown, suspected or unsuspected, both in law and equity (“Claims”), which Executive ever had, or now has by reason of any matter, cause or thing whatsoever arising from Executive’s employment with the Company to the time he signs this Agreement (the “General Release”). The General Release shall apply to any Claim of any type regarding Executive’s employment, including, without limitation, any Claims with respect to Executive’s entitlement to any wages, bonuses, benefits, payments, or other forms of compensation; any claims of wrongful discharge, breach of contract, breach of the covenant of good faith and fair dealing, violation of public policy, defamation, personal injury, or emotional distress; any Claims of any type that Executive may have arising under the common law; any Claims under Title VII of the Civil Rights Act of 1964, the Civil Rights Act of 1991, the Age Discrimination in Employment Act of 1967, the Older Workers Benefit Protection Act, the Americans With Disabilities Act, the Family and Medical Leave Act, the Employee Retirement Income Security Act, the Fair Labor Standards Act, the federal Workers’ Adjustment and Retraining Notification Act, the Sarbanes-Oxley Act, each as amended; and any other federal, state or local statutes, regulations, ordinances or common law, or under any policy, agreement, contract, understanding or promise, written or oral, formal or informal, between any of the Releasees and Executive, and shall further apply, without limitation, to any and all Claims in connection with, related to or arising out of Executive’s employment relationship, or the termination of his employment, with the Company or any Releasee.

- b. Executive intends that this general release extend to any and all Claims of any kind or character related to the Company, and Executive, on behalf of himself, his agents, heirs, executors, successors and assigns, therefore expressly waives any and all rights granted by federal or state law or regulation that may limit the release of unknown claims.
  - c. Executive represents and warrants that Executive has not filed, and Executive will not file, any lawsuit or institute any proceeding, charge, complaint or action asserting any claim released by this Agreement before any federal, state, or local administrative agency or court against any Releasee, concerning any event occurring prior to the signing of this Agreement. Nothing in this Agreement, however, shall be construed as prohibiting Executive from filing a charge or complaint with the Equal Employment Opportunity Commission (“EEOC”) or participating in an investigation or proceeding conducted by the EEOC, although Executive hereby agrees that he is waiving any right he may have to benefit in any manner from any relief (whether monetary or otherwise) arising out of any such investigation or proceeding conducted by the EEOC. Executive also hereby agrees that nothing contained in this Agreement shall constitute or be treated as an admission of liability or wrongdoing by any of the Releasees.
  - d. Nothing in this Section 1 shall be deemed to release (i) Executive’s right to enforce the terms of this Agreement or the Employment Agreement, (ii) Executive’s rights, if any, to any vested benefits as of Executive’s last day of employment with the Company under the terms of an employee compensation or benefit plan, program or agreement in which Executive is a participant, including, without limitation any right with respect to any equity interests in the Company or its affiliates that the Executive may own, (iii) Executive’s rights to indemnification under any indemnification agreement he has with the Company or any other Releasee, under the Employment Agreement and/or under the Company’s or any Releasee’s charter or bylaws, or to whatever coverage Executive may have under the Company’s or any Releasee’s directors’ and officers’ insurance policy for acts and omissions when Executive was an officer or director of the Company or of any Releasee, or (iv) any claim that cannot be waived under applicable law, including any rights to workers’ compensation or unemployment insurance.
2. Consultation with Attorney; Voluntary Agreement. The Company advises Executive to consult with an attorney of his choosing prior to signing this Agreement. Executive understands and agrees that he has the right and has been given the opportunity to review this Agreement and, specifically, the General Release in Section 1 above, with an attorney. Executive also understands and agrees that he is under no obligation to consent to the General Release set forth in Section 1 above. Executive acknowledges and agrees that the payments set forth in Section 4(c) of the Employment Agreement are sufficient consideration to require him to abide with his obligations under this Agreement, including but not limited to the General Release set forth in Section 1. Executive represents that he has read this Agreement, including the General Release set forth in Section 1 and understands its terms and that he enters into this Agreement freely, voluntarily, and without coercion.
3. Effective Date; Revocation. Executive acknowledges and represents that he has been given at least [twenty-one (21)][forty-five (45)] days during which to review and consider the provisions of this Agreement and, specifically, the General Release set forth in Section 1

above, although he may sign and return it sooner if he so desires. Executive further acknowledges and represents that he has been advised by the Company that he has the right to revoke this Agreement for a period of seven (7) days after signing it. Executive acknowledges and agrees that, if he wishes to revoke this Agreement, he must do so in a writing, signed by him and received by the Company no later than 5:00 p.m. local time on the seventh (7th) day of the revocation period. If the last day of the revocation period falls on a Saturday, Sunday or holiday, the last day of the revocation period will be deemed to be the next business day. If no such revocation occurs, the General Release and this Agreement shall become effective on the eighth (8th) day following his execution of this Agreement (the “Release Effective Date”). Executive further acknowledges and agrees that, in the event that he revokes this Agreement, it shall have no force or effect, and he shall have no right to receive any severance payment pursuant to Section 4(c) of the Employment Agreement.

4. Warranty Against Prior Transfer of Released Claims. Executive hereby represents and warrants to the Releasees that Executive is the sole owner of any Claims that Executive may now have or in the past had against any of the Releasees and that Executive has not assigned, transferred, or purported to assign or transfer any such Claim to any person or entity.
5. Severability. In the event that any one or more of the provisions of this Agreement shall be held to be invalid, illegal or unenforceable, the validity, legality and enforceability of the remainder of the Agreement shall not in any way be affected or impaired thereby.
6. Waiver. No waiver by either party of any breach by the other party of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of any other provision or condition at the time or at any prior or subsequent time. This Agreement and the provisions contained in it shall not be construed or interpreted for or against either party because that party drafted or caused that party’s legal representative to draft any of its provisions.
7. Governing Law. This Agreement shall be construed and enforced under and be governed in all respects by the laws of the State of Texas, without regard to the conflict of laws principles thereof.
8. Headings. All descriptive headings in this Agreement are inserted for convenience only and shall be disregarded in construing or applying any provision of this Agreement.
9. Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been duly executed as of the dates written below.

Dated: \_\_\_\_\_

\_\_\_\_\_  
Norman Abdallah

Dated: \_\_\_\_\_

DEL FRISCO'S RESTAURANT GROUP, INC.

By \_\_\_\_\_

Name:

Title:

**DEL FRISCO'S RESTAURANT GROUP, INC.**  
**List of Subsidiaries**

<u><i>Name of Subsidiary</i></u>	<u><i>State of Incorporation or Formation</i></u>
California Sullivan's, Inc.	California
CBG Delaware, Inc.	Delaware
Center Cut Hospitality, Inc.	Delaware
Center Cut Marketing, LLC	Indiana
Colorado Sullivan's, Inc.	Colorado
CWA Delaware, Inc.	Delaware
Del Frisco - Dallas, L.P.	Texas
Del Frisco - Fort Worth, L.P.	Texas
Del Frisco's Grille of Arkansas, LLC	Arkansas
Del Frisco's Grille of Atlanta, LLC	Delaware
Del Frisco's Grille of California, Inc.	Delaware
Del Frisco's Grille of Colorado, LLC	Delaware
Del Frisco's Grille of Connecticut, LLC	Connecticut
Del Frisco's Grille of Florida, LLC	Florida
Del Frisco's Grille of Maryland, LLC	Delaware
Del Frisco's Grille of Massachusetts, LLC	Delaware
Del Frisco's Grille of New Jersey, LLC	New Jersey
Del Frisco's Grille of New York, LLC	New York
Del Frisco's Grille of Pasadena, LLC	California
Del Frisco's Grille of Tennessee, LLC	Tennessee
Del Frisco's Grille of Texas, LLC	Delaware
Del Frisco's Grille of Washington DC, LLC	Delaware
Del Frisco's of Arizona, Inc.	Arizona
Del Frisco's of Boston, LLC	Massachusetts
Del Frisco's of Chicago, LLC	Delaware
Del Frisco's of Colorado, Inc.	Colorado
Del Frisco's of Florida, LLC	Florida
Del Frisco's of Nevada, Inc.	Nevada
Del Frisco's of New York, LLC	New York
Del Frisco's of North Carolina, Inc.	North Carolina
Del Frisco's of Philadelphia, Inc.	Pennsylvania
Del Frisco's of Texas, LLC	Texas
Del Frisco's of Washington D.C., LLC	Delaware
DF Beverage Corp.	Texas
DFRG Beverage Corporation	Texas

<u><i>Name of Subsidiary</i></u>	<u><i>State of Incorporation or Formation</i></u>
DFRG Management, LLC	Delaware
Lone Star Finance, LLC	Delaware
Louisiana Steakhouse, Inc.	Louisiana
North Philadelphia Sullivan's, Inc.	Pennsylvania
Romo Holding, LLC	Delaware
Steak Concepts Delaware, Inc.	Delaware
Sullivan's - Austin, L.P.	Texas
Sullivan's of Alaska, Inc.	Alaska
Sullivan's of Arizona, Inc.	Arizona
Sullivan's of Baltimore, Inc.	Maryland
Sullivan's of Delaware, Inc.	Delaware
Sullivan's of Illinois, Inc.	Illinois
Sullivan's of Indiana, Inc.	Indiana
Sullivan's of Kansas, Inc.	Kansas
Sullivan's of North Carolina, Inc.	North Carolina
Sullivan's of Washington, LLC	Washington
Sullivan's Restaurants of Nebraska, Inc.	Nebraska
Travis Beverage Corporation	Texas
Westheimer Beverage Corporation	Texas

**Consent of Independent Registered Public Accounting Firm**

The Board of Directors  
Del Frisco's Restaurant Group, Inc.:

We consent to the incorporation by reference in the registration statement (No. 333-183627) on Form S-8 of Del Frisco's Restaurant Group, Inc. of our report dated February 28, 2017 with respect to the consolidated balance sheets of Del Frisco's Restaurant Group, Inc. and subsidiaries as of December 27, 2016 and December 29, 2015, the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 27, 2016, which report appears in the December 27, 2016 annual report on Form 10-K of Del Frisco's Restaurant Group, Inc.

/s/ KPMG LLP

Dallas, Texas  
February 28, 2017

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Norman J. Abdallah, certify that:

1. I have reviewed this annual report on Form 10-K of Del Frisco's Restaurant Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

/s/ Norman J. Abdallah

Norman J. Abdallah

Chief Executive Officer

*(Principal Executive Officer)*

**CERTIFICATION PURSUANT TO RULE 13a-14(a)/15d-14(a)  
AS ADOPTED PURSUANT TO SECTION 302 OF  
THE SARBANES-OXLEY ACT OF 2002**

I, Thomas J. Pennison, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Del Frisco's Restaurant Group, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2017

/s/ Thomas J. Pennison, Jr.

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Thomas J. Pennison, Jr.

Chief Financial Officer

*(Principal Financial and Accounting Officer)*

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO SECTION 906 OF  
THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Del Frisco's Restaurant Group, Inc. (the "Company") on Form 10-K for the fiscal year ended December 27, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, Norman J. Abdallah, Chief Executive Officer of the Company, and Thomas J. Pennison, Jr., Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 that to his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 28, 2017

/s/ Norman J. Abdallah

Norman J. Abdallah  
Chief Executive Officer  
(Principal Executive Officer)

Dated: February 28, 2017

/s/ Thomas J. Pennison, Jr.

Thomas J. Pennison, Jr  
Chief Financial Officer  
(Principal Financial and Accounting Officer)